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# Shattered Illusions: Revealing the Reality Behind Adani's Stock Plunge Hindenburg v. Adani

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## ABSTRACT

*The growing developments in the country and funds to the government in the contemporary world are predominantly due to IT services. The government continued to invest immensely in the development of the companies and encouraged entrepreneurship, ultimately boosting employment rates. Therefore, this increment in the employment rates will contribute immensely to National development and ultimately to the National Income. Where there is development, there is scope for wrongdoings; in this context frauds, manipulation, Unimaginable amounts of related party transactions, etc. With this pretext, The Hindenburg Research claims one such case is allegedly said to be the Adani group. Due to this report, the stock value of the Adani group crashed at a catastrophic level. War broke between the two entities since the report was published at the beginning of 2023.*

*The present paper aims to focus on some of the claims made by the Hindenburg reports on the Adani Group and understand them from the Indian Judicial perspective.*

**Keywords:** Stock manipulation, Fraud, Report, Supreme Court, Regulations, SEBI, FIR.

## I. INTRODUCTION

"In the business world, the rearview mirror is always clearer than the windshield." - Warren Buffett, Chairperson of Berkshire Hathaway. India is one of the largest economies in the world with an impressive growth rate. According to the IMF, India is the fifth-largest economy by market exchange rates and is third-largest by purchasing power parity. With around \$3.73 trillion as nominal GDP, India has a per capita of \$2,612. India is the largest exporter of IT in the contemporary world. The contribution of IT to the Indian GDP will be around 7.5% in 2023. There are many industries inculcated to form the IT in India. These industries are either service-based or product-based. One such entity is the Adani group<sup>2</sup>. It is an Indian multinational conglomerate headquartered in Ahmedabad, India. Founded by Gautam Adani, the group is involved in various sectors like energy, infrastructure, logistics, agribusiness etc. It is one of the

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<sup>2</sup> Adani, <https://www.adani.com/>

largest corporate entities in India.

Founded in 2017 by Nathan Nate Anderson, Hindenburg Research<sup>3</sup> is an American Investment Research firm known mostly for its critical reports on various targeted companies. It describes itself by stating that it uncovers hard-to-find information from atypical sources. They mostly aim to disclose fraud or any other misconduct. All these publications are available to the public on their website. Based on their critical analysis, there would be a significant market reaction. Additionally, there would be scrutiny of the operating practices of these mentioned targeted companies.

The American company published a report on the Adani Group with significant accusations of stock manipulation, publishing wrong audits, fraud, etc. Within 3 days of such publication, the company faced a loss of around \$65 Billion in the Stock market. The Hindenburg employees had immense confidence in their publication and mentioned that they were ready to face a legal suit in case the legal team of the Adani group found it necessary to do so. <sup>4</sup>Hindenburg disclosed last year it held short positions in Adani companies through U.S.-traded bonds and non-Indian-traded derivatives. It released a report that alleged Adani improperly used tax havens and also flagged concerns about high debt levels at the company. The Adani group called the report baseless and termed the allegations "unsubstantiated speculations".

## **II. HINDENBURG FUNCTIONING**

According to Mr. Anderson, Hindenburg is a company that uncovers all the financial frauds and any other stock manipulations that are branched under 'Man-made Disasters'. The company stated that 'While they use fundamental analysis to aid their investment decision-making, they believe the most impactful research results from uncovering hard-to-find information from atypical sources. In particular, they often look for situations where companies may have any combination of:

- Accounting irregularities
- Bad actors in management or key service provider roles
- Undisclosed related-party transactions
- Illegal/unethical business or financial reporting practices
- Undisclosed regulatory, product, or financial issues'

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<sup>3</sup> Hindenburg Research, <https://hindenburgresearch.com/>

<sup>4</sup> Explainer: Adani vs Hindenburg Research: What you need to know, <https://www.reuters.com/world/india/adani-vs-hindenburg-research-what-you-need-know-2024-01-03/>

Anderson compares the stock market disasters to the 1937 disaster where an airship/blimp known as Hindenburg crashed due to a fire accident and around 35 members passed away. Anderson believes this company is an activist company as well, due to its nature of fighting against such financial frauds. Along with such disclosures, the Hindenburg receives its income through short selling.

Also known as ‘Shorting’ or ‘Going Short’, Short selling is undertaken by highly experienced traders and investors. It is an investment/trading strategy where a company trades on a stock’s decline or other security’s price. A conventional trader would initially buy a stock when the price is low and sell it when the price is high (bullish behaviour). But in the case of short selling, a trader believes that the price of a particular stock will fall. The trader understands that the price is overvalued. Then they sell that stock at a higher price and then they buy it when the price falls. It is important to note that the stock that they are selling is not possessed by the trader. These kinds of trades are only possible if they have an MIS Account. MIS is Margin Intraday Settlement. SEBI allows short selling in India. It is believed that a trader can sell stocks which they do not possess. But is followed with the condition that during the market working hours, they must settle this arrangement. Let us assume that A sold 100 units of X company for 200 rupees believing that the price would go down. After a certain amount of time, the price went down to 180 rupees. It is conditioned that the trader must buy the stocks within the market working hours. A would buy 100 stocks for 180 rupees. In this regard, we observe that there is a profit of 20 rupees. This is how short selling works, exactly what Hindenburg claims to do.<sup>5</sup>HR mentions that they carry out their financial research to expose the frauds committed by the companies and bet on the targeted company’s stock falling. As interesting as this trade practice may seem, it is one of the riskiest ways to practice trading and investing. In short selling, there is no upper limit to the losses. Let us assume that A sold 100 units of the same X company for 200 rupees. After a certain point, the price of the stock may continue to rise. There is no end to the increase in the price unless there is an Upper circuit scenario where there are only buyers but no sellers. In such a case, the price of the stock gets locked. In other scenarios, the price may increase indefinitely. The amount of this increment if not settled would be the loss bore by A.

### **III. SHORT SELLING AND INDIA**

In contemporary times, short selling is legal and allowed in India. However, this was not the

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<sup>5</sup> PALAK SHAH, Domino effect. Probe reveals overseas short-selling behind \$100 billion rout in Adani shares, <https://www.thehindubusinessline.com/markets/probe-reveals-overseas-short-selling-behind-100-billion-rout-in-adani-shares/article66489053.ece>

case from 2001 to 2008. the practice was prohibited after allegations of insider trading contributed to a crash in stock prices.<sup>6</sup> Indian regulators restored short sales in 2008, but they added more safeguards against the possible downsides. These rules forbid institutional investors from day trading, mandate that investors disclose short sales, and set up a platform for short sales. During the economic turmoil that aligned with the start of the COVID-19 pandemic in March and October of 2020, Indian regulators yet again temporarily prohibited short selling. Currently, in India, retail investors and institutional investors (such as mutual funds, FIIs, banks, insurance companies, etc.) are free to short-sell, provided derivative products are available of that stock. They (institutional investors) are required to disclose at the time of placement itself whether the stock is a short sale and their ability to borrow those stocks to the satisfaction of the broker, the same is not the case with retail investors. They can disclose this at the end of the trading hours on the day of the transaction. In addition to this, naked short-selling is prohibited. The present lending and borrowing scheme in India operate on clearing corporations/houses (CC/CH) of the stock exchanges, leaving very little scope for the investors to capitalize on the demand for securities. A lending and borrowing system with CC/CH acting as Approved Intermediaries can be brought in. However, appointing AIs must be done carefully, starting with appointing Banks as custodians in the first stage.<sup>7</sup> FPIs and Foreign Institutional Investors are explicitly prohibited from short selling as per the guidelines.

However, foreign entities still trade in India through some other corporations or organizations which are still allowed to trade. The regulations do not go up to the source and limit themselves to regulating the direct intermediaries which does not solve the problem. Internationally, it is mostly seen that the securities market does not directly regulate the lending and borrowing processes because they are essentially held over the counter. The custodians and depositors run these lending and borrowing institutions. So, if India goes for bringing such a scheme, the short-selling regulation would be simultaneous to that.<sup>8</sup>

#### **IV. INITIAL KNOCKDOWN TOWARD ADANI FROM HINDENBURG**

The Hindenburg report crashed the Adani group's market evaluation of about 100 bn \$ bringing him from the 3<sup>rd</sup> Richest person in the world to somewhere in the 20s. There were speculations

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<sup>6</sup> TROY SEGAL, Is Short Selling Allowed in India? <https://www.investopedia.com/ask/answers/09/short-selling-india.asp>

<sup>7</sup> Hindenburg Case: Supreme Court Questions SEBI On Action Taken Against Short-Sellers, <https://www.ndtv.com/india-news/hindenburg-case-supreme-court-questions-sebi-on-action-taken-against-short-sellers-4602984>

<sup>8</sup> Nirukta Krishnan and Aditi Kotecha, Short-selling Laws in India: A Study in the Light of Adani-hindenburg Issue, <https://cbcl.nliu.ac.in/capital-markets-and-securities-law/short-selling-laws-in-india-a-study-in-the-light-of-adani-hindenburg-issue/>

that Modi was one of the backbones of the development of the Adani Group. Interestingly, many professionals pointed out that the growth of both individuals started from a single place i.e., Gujarat, India, and then continued to grow parallelly. Mr. Adani replied to these allegations by stating that all of their contracts have been transparent and open. He further pressed that no political party or personality was behind the enormous growth of the Adani group. He further stated that he was a competent businessman regardless of any connections. – “The report is a malicious combination of selective misinformation, stale and baseless and discredited allegations that have been tested and rejected by India’s highest courts” -Jugeshinder Singh, Chief Financial Officer, Adani Enterprises.

Hindenburg alone did not work alone toward the investigations of the Adani entities. The report mentioned that many RTIs were filed against them and some offshore entities (Elara, Monterosa Investment Holdings, New Leina especially in Mauritius were under investigation for over a year and a half. Therefore, it is safe to assume that the leaders of India were not completely in support of Adani or accepting of their funding. All these RTIs were filed to the SEBI concerning stock manipulation performed by many individuals such as Ketan Parekh (former stock market manipulator), Dharmesh Doshi (a fugitive accountant), Samir Arora (Brother-in-law of Gautam Adani), Vinod Adani (Elder brother of Gautam Adani), Rajesh Adani (Gautam Adani’s younger brother), etc. Most of the investigations from India were done by the DRI i.e., the Directorate of Revenue Intelligence.

Some of the Red flags mentioned in the report are as follows:

- The conglomerate is accused of conducting many related party transactions with entities such as Monterosa Investment Holdings which supposedly holds over INR 360 billion in shares of Listed Adani Companies and Elara which is an offshore entity with around \$ 3 Billion in concentrated holdings of Adani shares. Adani’s 7 key listed entities collectively have 578 subsidiaries and have engaged in 6,025 separate related-party transactions in fiscal year 2022 alone.
- Adani Enterprises had around 5 Chief Financial officers over the course of 8 years.
- One of the current independent auditors of the Adani enterprises is Shah Dhandaria which is a tiny firm with no proper website. It also had only 4 partners and 11 employees.
- The 7 key listed companies of the Adani group observed a surge in their profit percentages in the years preceding the report's publishing.

Company Name	MCap (Mil INR)	MCap (Mil U.S \$)	1-YR Stock % Gain	3-YR Stock % Gain
Adani Enterprises	3,928,558	48,108	101%	1398%
Adani Transmission	3,095,771	37,910	36%	729%
Adani Total Gas	4,275,567	52,357	118%	2121%
Adani Green Energy	3,047,678	37,321	4%	908%
Adani Power	1,062,201	13,007	167%	332%
Adani Ports	1,668,599	20,433	8%	98%
Adani Wilmar**	734,123	8,990	149%	149%
<b>Total</b>	<b>17,812,498</b>	<b>218,127</b>		

- One of the former executives of the company stated that maximum shares of the company were retained by Gautam and his family members in the business. The report further mentioned that the large family involvement in the business created a ripe environment and unilateral and opaque financial decisions.
- Many of the members involved in the Adani group were former wrongdoers. Ex-Rajesh Adani was arrested twice due to accusations of diamond trading, customs tax evasion, and unauthorized coal imports; Samir Arora was too involved in the same diamond trading scam according to DRI, etc

## V. IMPACT OF THE REPORT

It is unnecessary whether the report had true facts or not. The damage was already faced with the publication. Soon after the report's release, the Adani Group's share prices saw a massive crash to the tune of USD 140 billion, drastically affecting investor confidence and allowing Hindenburg Research to rake in substantial profits through short selling. Adani slipped from being the world's third richest man to the 23<sup>rd</sup> in 2022. As per Hurun Global Rich List 2023, Adani lost around 300 crores every week following the critical report. The short seller's attack has left the group reassessing its grand ambitions after it racked up one of India's heftiest debt loads to fund fresh areas of growth. Adani — who has been closely associated with Prime Minister Narendra Modi's nation-building efforts and has seen his conglomerate witness explosive growth since the leader came into power — is dialling back on ambitions to dive further into aluminium, steel, and road projects, Bloomberg News reported in March, citing people familiar with the group's inner workings.<sup>9</sup> In a month, Adani has seen it all, from the good old days to entering a phase of eye-blotching losses. Most Adani stocks have hit back-to-back lower circuits or fresh 1-year lows. As per, Rohan Shah-head technical analyst at Stoxbox the peak level of Adani Group's market cap was around ₹25 lakh crore. From this level, Adani shares market value has dipped by over 71% by the end of February 24, 2023. In value terms,

<sup>9</sup> Chiranjivi Chakraborty and Subrat Patnaik, Hindenburg-inflicted losses still weigh heavily on Adani stocks, <https://economictimes.indiatimes.com/markets/stocks/news/hindenburg-inflicted-losses-still-weigh-heavily-on-adani-stocks/articleshow/100812324.cms?from=mdr>

the losses are over ₹17.8 lakh crore. The worst-hit Adani stocks in a single month, in percentage terms, were Adani Total Gas, which fell by almost 81%, Adani Green, and Adani Transmission, which fell by approximately 74.5% and 74%, respectively. Adani Enterprises, the company's flagship, also took a serious hit as its share price fell by almost 62%.<sup>10</sup> Subsequently, the group continued to progress towards its restoration.

## VI. THE REVIVAL

The group faced enormous hardships after the critical publication of the short seller. Gautam Adani had not given up the battle and continued to work towards the restoration of the company despite these barriers. The company continued to produce and slam all allegations put forth by the Anderson company. The Adani family recently divested stakes of Group CFO Jugeshinder 'Robbie' Singh in four group companies to raise \$1.87 billion (A round of Rs 15,500 crore) from global private equity firm GQG Partners. In addition, three companies have board approval to raise funding of \$4 billion over the next 12 months, Subsequently, the group had many more plans of action to rehab the company. Currently, Adani Enterprises Ltd (AEL) is back in the market with a Rs 12,500-crore equity-raising plan. AEL's biggest bet is green hydrogen (Through AEL subsidiary Adani New Industries Ltd, or ANIL) where it is setting up an ecosystem- from the generation of green hydrogen, downstream products (ammonia and urea), to manufacturing of supply chain products like wind turbines, batteries, and electrolyzers. The Adani Group is focussing on consumer-centric businesses for growth, whether it is airports, energy and gas distribution, or real estate. Furthermore, the Adani group had a portfolio of 10 companies in the recent past. The CFO stated that they would have to close to 14-15 companies by 2033.

Subsequently, while the Supreme Court constituted an expert committee on the Adani stock crash did not find any regulatory failure, the sword of ongoing investigations by the SEBI is still hanging over the group's head. It is observed that amidst the Hindenburg crisis, Adani Group was also expanding internationally. The whole of the credit for this expansion and development went to the management team of the group. They were committed and loyal to Gautam Adani which gave them the tag of the company's greatest asset.

Now in 2024, Mr. Gautam Adani stated that a year after the report of the short seller who ripped his apples to the airport conglomerate, and after many visits to the court, the group is stronger as it continued to take the growth path with their involvement in launching major projects such

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<sup>10</sup> Pooja Sitaram Jaiswar, Month after Hindenburg's bombshell report, Adani stocks in shambles; group loses over ₹12 lakh cr m-cap, <https://www.livemint.com/market/stock-market-news/month-after-hindenburg-s-bombshell-report-adani-stocks-in-shambles-group-loses-over-rs-12-lakh-cr-m-cap-11677238532189.html>



as Dharavi redevelopment. Adani also emphasized that the group raised Rs 40,000 crore of equity- equal to debt repayment for the next two years- through stake sales in some firms, repaid Rs 17,500 crore of margin-linked financing, and trimmed debt.<sup>11</sup>

## VII. THE JUDICIAL COMBAT

It is only natural that such an allegation on the conglomerate group would attract suits. Four Public Interest Litigations were filed before the Supreme Court. (Article 32 of the Constitution). The initial PIL contended concerns about the huge fall in the securities market, the impact it had on the investors, and the lack of redressal for such actions including disbursement of loans to the Adani Group without due procedures. The Second PIL mentioned that the group violated India's public holding norms. 25% of all public Listed entities are to be under the control of the public. But in this scenario, 75% were under the control of the promoters and owners, while the other 25 were indirectly under the control of the same promoters being portrayed as shell companies. The Third PIL sought the investigation of Adani Group's financial transactions, including the role of Life Insurance Corp (LIC) and the State Bank of India (SBI), in such dealings under the supervision of a sitting judge of the Supreme Court. The fourth PIL wanted an FIR to be registered against the short-selling company founder Nathan Anderson for taking short positions in the group through US-traded bonds and overseas-traded derivative instruments, and to recover the profits gained from those deals to compensate Indian investors. The opposition demanded JPC (Joint Parliamentary Committee) probe into Adani's allegations. They wanted either the JPC headed by the Supreme Court or monitored by the CJI into the allegations of fraud and stock manipulations. According to NDTV, India's overactive public interest litigators, ever keen to see a Narendra Modi connection behind Adani's meteoric rise over the last decade, immediately moved the Supreme Court demanding that the Hindenburg report be investigated by a court-monitored agency, and not the usual regulators.<sup>12</sup> The three-judge bench comprising Chief Justice D Y Chandrachud and Justices J B Pardiwala and Manoj Misra dismissed all writ petitions filed in February 2023, raising concerns over the decline in investor wealth and volatility in the share market due to a fall in the share prices of the Adani Group companies.

The apex court of India observed that SEBI is already looking into the allegations against the

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<sup>11</sup> We have emerged stronger from 'lies detractors tried to resurrect', says Gautam Adani on anniversary of Hindenburg bombshell, <https://economictimes.indiatimes.com/news/company/corporate-trends/we-have-emerged-stronger-from-lies-detractors-tried-to-resurrect-says-gautam-adani-on-anniversary-of-hindenburg-bombshell/articleshow/107138882.cms?from=mdr>

<sup>12</sup> R Jagannathan, Opinion: Lessons From Judgment On Hindenburg - For Adani And His Detractors, <https://www.ndtv.com/opinion/lessons-from-judgment-on-hindenburg-for-adani-and-his-detractors-4791792>

Adani Group and directed SEBI to continue with its probe on whether there was any violation of minimum public holding norms, failure to disclose related party transactions, and any manipulation of stock prices. It also formed a six-member committee, headed by former Supreme Court judge AM Sapre, to investigate whether there was a regulatory failure in dealing with the alleged contravention of laws about the securities market concerning the Adani Group. The court also wanted the committee to suggest measures to strengthen investor protection and awareness. Subsequently, the Six-member committee stated that there was no regulatory failure on SEBI's part in handling the case. But there has been a long-standing suspicion of Sebi that some of the public shareholders in Adani companies are not truly public shareholders and that they could be fronts for the promoters. It also said Sebi had drawn a blank in its probe regarding the foreign institutional ownership in these entities as overseas jurisdictions were not cooperative. Also, there was no coherent pattern of abusive trading in Adani stocks that has come to light.<sup>13</sup>

Additionally, the bench summarily rejected the allegation that there was a conflict of interest in the supervisory panel it had set up to monitor the SEBI investigations. The panel had six members, two former judges, AM Sapre and JP Devdhar, two former bankers (KV Kamath and OP Bhat), a tech titan (Nandan Nilekani), and an expert on regulation, Somasekhar Sundaresan. the bench also found no valid ground to reject SEBI's amended regulations for foreign portfolio investors (FPIs), where norms had been tightened and not loosened, as alleged by the petitioners. the judges also said that the Hindenburg report could not be taken as proof of hanky-panky. On the contrary, SEBI could act against Hindenburg in case it was found to have flouted any Indian law while doing its short-selling.

Currently, as of January 2024, The Supreme Court rejected key demands of petitioners seeking to derail the ongoing SEBI investigation. It also contended that the dependence on a third-party report must be reduced and affirmed that SEBI is handling the investigation and other factors of the case. The Supreme Court pronounced its verdict on 3<sup>rd</sup> Jan 2024. A bench comprising Chief Justice D Y Chandrachud and justices J B Pardiwala and Manoj Misra delivered this judgment. Following the judgment, the conglomerate lawyer stated that the apex court gave a clean chit to Adani. Conclusively, The Hon'ble Court ruled in favour of the Adani Group and SEBI, rejecting the transfer of the probe to the other investigative bodies. The court deemed the Hindenburg report unreliable and aimed at influencing the market through selective and

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<sup>13</sup> Reena Zachariah, ET Explains: Allegations against Adani Group, Sebi probe and SC Order, <https://economictimes.indiatimes.com/news/et-explains/et-explains-allegations-against-adani-group-sebi-probe-and-sc-order/articleshow/106554195.cms?from=mdr>

distorted information. After the Jan 3<sup>rd</sup> judgment, a review petition was filed which the Supreme Court refused.

## VIII. CONCLUSION

The observation of what transpired between Adani and Hindenburg is a periodical reminder to everyone that there is a lot that goes under the corporate veil and only the perpetrator would know about the functioning of any such frauds and other illegal actions that contravene the SEBI, FDI, CCI regulations, etc. Therefore, these instances show that strict monitoring is not enough to stop such actions. It is still unknown if all the allegations put forth by the Hindenburg research organization are credible or not. There is no concrete proof for some of the claims. Most of the journalists from India state that these claims were exacerbated to gain more attention.

Further, this fiasco also enlightens us about the laws that govern and monitor short selling. It is allowed in India but if an entity does everything it can to hinder the reputation of a company and gamble on the number of losses that it may face, there is no stopping to the extent to which the entity might go. Let us consider the option that whatever publication is done, it is predominantly false information with no credible proof, there is still some damage faced by the company. They will lose a considerable amount of goodwill. This is why codified legislation on short selling and related investments is demanded.

As investors, we need to understand all the schemes and services that the company is marketing and providing and perform scrutiny of our own to avoid any such losses. The publication of the Hindenburg report is Force Majeure. It is not perceived or expected. In such scenarios, there would be no scope for revival for the investors. Therefore, immediate grievance and investor protection agendas must be utilized.

Finally, The Hindenburg report gives us enlightenment that companies may not always work in the interest of sustainability, CSR, ethics, other morals, etc. It portrays serious concerns where the regulating authorities are given more responsibilities to protect the investors and monitor the method of functionality of the company. This incident underscores the importance of transparency, accountability, and robust corporate governance practices in the global business landscape. Regardless of the outcome, this episode serves as a reminder of the potential impact of investigative reports on market perceptions and investor confidence.

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