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THE ADANI GROUP: BOUNCE BACK, STRATEGIC RECOVERY AND MARKET RESILIENCE POST HINDENBURG RESEARCH REPORT

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Abstract

The Hindenburg Report criticized the market capitalization of Adani Group companies, leading to a significant drop in value in the Indian stock market. However, Gautam Adani's wealth surged, the Adani Group's cash reserves reached an all-time high, and their EBITDA growth soared by 47% in FY24. The conglomerate faced allegations of tax fraud, corruption,

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and environmental violations, following the Hindenburg Research Report in January 2023. The public was flooded with information about the Adani Group's commercial endeavors. This study examined the group's strategic shifts, financial performance, and market perception in response to the allegations. The recent news focused on the issues and their impact on the market. The study also highlights major controversies surrounding the company, such as environmental violations, land acquisition issues and allegations of tax evasion. The study has analyzed media data to gain insights. The Adani Group despite initial setbacks, has successfully mitigated risks and rebuilt investor confidence through debt reduction, project abandonment and operational streamlining. Despite challenges, the group's financial health remains strong. However, ongoing efforts are needed to maintain sustainability and confidence of stakeholders.

Keywords: *Adani Group, Business Practices, Controversies, Hindenburg Report, News and Social Media*

JEL Code : *G32, L21, L26 and O53.*

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1. Introduction

The Hindenburg Research Report (2023) has led to strategic shifts within the Adani Group, focusing on debt reduction, increasing investor confidence and undertaking risk mitigation. The group abandoned mega projects, such as the power plant project in Chhattisgarh and the Macquarie Toll Road deal in Andhra Pradesh and Gujarat, indicating a cautious approach to managing large-scale infrastructure projects. Terminating the cement unit agreement with Orient Cement, initiately its strategies shift on core operations. The group's exit from the financial services sector could be a strategic move to streamline operations and concentrate on core businesses. The reduction in aggressive expansion plans, within the petrochemical sector, indicated its reassessing investment priorities. Adani Ports and SEZ's restrained bidding strategy for Concur, revealed its financial prudence over aggressive market positioning. The delay in the Vietnam green seaport ecosystem project, also signaled a strategic pause on large-scale international investments.

The Adani Group's activities and financial situation have not changed much despite the Hindenburg Report's substantial impact. Credit ratings remain intact, major banks maintain credit lines and the group has successfully raised new debt. The management and board at the top level remain unchanged, with no departures. Life Insurance Corporation of India (LIC) retains its position, and the group continues its acquisition strategy, indicating long-term investor confidence. Adani Enterprises reported its highest EBITDA of 82,917 crore in FY24, a 45% rise from the previous year. The company's profit, after tax, reached 40,129 crore, and its cash balance reached 59,791 crore. Adani secured 40,000 crore for debt repayment, bringing its debt-to-EBITDA ratio down to below 2.2 times.

Despite these challenges, the Adani Group has achieved notable success in several Indian businesses, including ports, energy, logistics, and agriculture. It has invested heavily in renewable energy, particularly solar power and set ambitious goals to grow renewable energy capacity. However, the company has faced criticism for its business practices and impact on society and the environment.

2. Review of Literature

According to the **Hindenburg Report (2023)**, the Adani Group, led by Gautam Adani, has faced allegations of stock manipulation and accounting fraud. The family, including eight of its 22 senior leaders, is accused of establishing offshore shell firms in tax haven nations, fabricating import/export paperwork and stealing money from publicly traded companies. SEBI has penalized over 70 organizations and people for boosting Adani's stock. Hindenburg Research mentioned that the Adani Group has been accused of manipulating profits and hiding accounting inefficiencies, caused by insufficient financial controls, using a network of offshore shell businesses. Except for Adani Ports and Adani Wilmar, all five of the group's companies have current ratios under 1.0, raising the possibility of increased short-term liquidity risk (**Kumar& Mishra, 2023**). The Hindenburg Report warns of potential future covenant breaches in the Adani Green Energy Offering Circular, highlighting the company's vulnerability due to its interconnected structure and family-centric leadership, which is accused of embezzling $17 billion in taxpayer money, by engaging in corruption (**Fair Observer, 2023**). The Hindenburg Report alleges that despite abundant evidence, investigations have been halted or postponed by various Indian government branches. Rajesh Adani, the younger brother of Gautam Adani, was charged with formulating a plan to trade diamonds between 2004 and 2006 **(Hindenburg, 2023)**. He was detained twice for evading customs taxes, fabricating paperwork and importing unlawful goods. Adani Enterprises' managing director, Mr. Samir Vora, was accused of leading a diamond trading scheme **(Deccan Herald, 2023).** Mr. Vora was promoted as Executive Director in 2017, managing Carmichael Mine and Rail Projects, involving Gautam Adani's older brother Vinod. Despite playing key roles early on, Adani disputes his association with the group. Vinod has created a massive empire of shell corporations, that channel assets through the Adani Group firms by establishing multiple organizations in Mauritius and other offshore jurisdictions with the help of his close colleagues **(Deccan Herald, 2023).** There are allegations of insider trading, stock manipulation and concealed margin lending as a result of this violation of SEBI Exchange Rules, which provide for a minimum public shareholding of 25% **(SCI, 2024).** Based on the **Hindenburg** Report, Mahua Moitra, an opposition politician in India, charged the Adani Group with concealing its covert ownership of significant volumes of publicly traded stock and perhaps manipulating stock prices. Due to high reported promoter shareholding, four of Adani's listed firms are getting close to India's delisting criteria. Insiders hold 72% or more of the shares of Adani Enterprises, Adani Transmission, Adani Power, and Adani Total Gas. By the beginning of 2025, Adani Wilmar, which now has 87.94% insider ownership, must cut its stake to 75% **(5paisa, 2023).** By 2021, when all shareholders and beneficial owners of Adani had to be disclosed to parliament, the problem became even more serious. The report indicates a discrepancy between Adani Exports Ltd.'s share calculation on the first of April and the figures in a Reuter's article by Malay Mahadevia, a founding PMC shareholder, who currently holds the position of CEO. Adani Enterprises has 156 subsidiaries, while Adani Total Gas has no subsidiaries. The company was involved in various scandals, including the iron ore, coal pricing, and power equipment scandals.

Sourav Majumdar BT Cover Story (2023) highlights the significant cash position and solid assets of Adani Group, which offer a buffer for debt servicing. The group's ambitious growth strategy can easily avoid the biggest disaster of its career. However, the stock price will eventually settle at more understandable levels as the funding climate becomes more difficult. The recent rise in Adani's stock price indicates promising expansion potential for the business, as the company diversifies into new industries and places a strong emphasis on renewable energy. This expansion strengthens the company's ongoing success and contributes to the global economy, aligning with India's sustainability initiatives (**Majumdar, 2023).** In 2020, the government-owned Life Insurance Corporation of India (LIC) made significant investments in Adani Group enterprises, raising its exposure to them to $9.5 billion (**Majumdar, 2023).** The Indian stock market is concerned about the group's capacity to absorb growth. A systematic literature review reveals major operations, stakeholders, key factors influencing major decisions, media concerns, impact on stakeholders, and Adani Group's handling of the trajectory at national and international levels.

The study formulated a few questions as a result of a systematic literature review:

i) What are the major operations, and who are the stakeholders of the Adani group?

ii) What are the key factors influencing major decisions and their implications?

iii) What are the major concerns discussed in the media?

iv) What was the impact of the trajectory on stakeholders?

v) How does the Adani Group handle the trajectory at the national and international levels?

3. Statement of the Problem

The Adani Group, a prominent conglomerate in India, faced significant financial and reputational challenges, following the Hindenburg Research Report, which accused the group of corporate malfeasance, including overleveraging and irregular financial practices. These allegations resulted in a sharp decline in stock prices and raised concerns about the group's financial stability and strategic direction. While the Adani Group has initiated measures such as debt reduction, project cancellations and a strategic realignment to mitigate these effects, the impact of these shifts on its financial health, market perception and investor confidence, remains unclear. This study seeks to investigate whether the strategic decisions taken by the Adani Group post-Hindenburg allegations, have improved its financial stability, market perception, and long-term viability.

4. Need of the Study

The controversy surrounding the Adani Group's business practices and its subsequent financial and strategic responses, has created uncertainty in the market, affecting investors, stakeholders and policymakers. Understanding the effectiveness of the group's strategic shifts, particularly its debt reduction and risk mitigation measures, is crucial to evaluating the overall financial health of one of India's largest conglomerates. This study would provide insights into the Adani Group's recovery efforts, the effectiveness of their strategic realignment and the long-term impact on stakeholder trust, investment viability and market stability, with implications for corporate governance and financial sustainability in emerging markets.

5. Objectives of the Study

- To examine the Adani group's strategic shift and financial response to the Hindenburg Research Report.
- To analyze financial health and market perception to understand the strategic impact on investors

- To explore the impact on stakeholders, based on financial performance and strategic positioning.

6. Hypotheses of the Study

1. $H_{1:}$ Adani Group's strategic shifts, such as debt reduction and high-risk project withdrawal, have not improved financial stability and market perception.
2. $H_{2:}$ The Adani Group's financial distress and investment viability cannot be accurately predicted, using the financial health index in emerging markets.

7. Research Methodology

7.1 Sample Selection

The current study examined publicly listed companies, within the Adani Group, like Adani Enterprises Ltd., Adani Green Energy Ltd., Adani Ports and SEZ Ltd., Adani Power Ltd., Adani Transmission Ltd., and Adani Total Gas Ltd., focusing on their market presence, media controversies, and the impact of recent allegations.

7.2 Sources of Data

The Adani Group's financial performance was analyzed by using secondary data from financial statements, market analysis platforms, news articles, and research publications. The study covered a period of six years, from FY 2018-19 to FY 2023-24, to capture the company's financial trajectory before and after controversies and allegations, including the Hindenburg Report in 2024. The chosen period allows for a comprehensive analysis of the company's financial health and business practices.

7.3 Period of Study

The secondary financial data, based on different reports from March 2017 to June 2023 and details up to June 2024, were used, to analyze how strategic shift helped the Adani group to recover its position and bounce back in 2024.

7.4 Tools Used in the Study

MS Excel was used for tabular representation. The Adani Group's financial statements, ratio analysis, capital structure analysis, Altman's Z score and Piotroski Performance Score models, were employed for the analysis.

7.4.1 Analysis Models

- Altman's Z Score Model:

According to **Ashutosh Kolte, Arturo Capasso, and Matteo Rossi(2018), i**n the year 1968, Altman formulated his first discriminant function, as shown below:

$$Z = 0.012\,X_1 + 0.014X_2 + 0.033\,X_3 + 0.006\,X_4 + 0.999X_5$$

Altman's Z Score Model, developed in 1968, evaluates an organization's financial stability by analyzing variables such as working capital, retained earnings, earnings before interest and taxes (EBIT), market value of equity, and sales.

- In the year 2000, Altman revised his model, which became widely adopted. The updated formula is:

  $$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

  The updated model, Z'', was developed in 2000 and improved for emerging markets and non-producing businesses.

- The new Z'' Score model is (Altman E.I., 2005):

  $$Z'' = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$$

As shown in **Table -2**, the new Z'' model, Z^'', would be useful for industries with unusual changes like lease capitalization and unique asset financing methods.

- **Z-Score model for Emerging Markets:**
  $Z'' = 3.25 + 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$
- **Piotroski Performance Score Model**

The Piotroski Performance Score, a sum of individual binary signals, is positively correlated with future firm performance and stock returns, suggesting current fundamentals predict future fundamentals. The accuracy is enhanced by adding a constant term of +3.25.

8. Data Analysis and Interpretation

This section presents a comprehensive analysis of the financial performance, strategic responses and key challenges faced by the Adani Group, utilizing financial ratios, Altman Z-Scores, Piotroski F-Scores, and an assessment of strategic shifts post-Hindenburg allegations.

8.1 Altman Z-Score Analyses of Adani Group Companies

The Altman Z-Score is a key metric, for evaluating the financial stability of Adani Group companies:

- **Adani Green Energy Ltd**: The Altman Z-Score of 2.00 was below the five-year average of 2.80, signaling a potential risk of financial distress.
- **Adani Transmission Ltd**: The Altman Z-Score of 4.88, significantly higher than the average of 2.24, reflected strong financial stability (**Table -3**).

These figures suggest that while Adani Transmission remained financially healthy, Adani Green Energy may face financial challenges.

8.2 Piotroski F-Score Analysis of Adani Group Companies

The Piotroski F-Score assessed the financial health of Adani Group subsidiaries, with higher scores indicating better performance:

- **Adani Enterprises Ltd (Energy and Utilities)**: F-Score of 7 (March 2022) reflects outstanding performance and robust financial health.
- **Adani Ports and SEZ Ltd (Transportation and Logistics)**: F-Score of 6, indicated sound financial stability.
- **Adani Green Energy Ltd (Incubation)**: F-Score of 5, indicated moderate financial health.
- **Adani Total Gas Ltd (Airports)**: The F-Score surged from 1.77 in 2017 to 19.53 in May 2023, highlighting exceptional financial progress.
- **Adani Transmission Ltd (Materials)**: F-Score of 7, demonstrated solid financial stability.
- **Adani Power Ltd (Others)**: F-Score of 9 in March 2022, revealed exceptional financial health.

The F-Score analysis revealed significant financial improvement in Adani Power and Adani Total Gas, reflecting effective financial management.

8.3 Financial Data Analysis of Adani Group Companies

The group experienced a 9% increase in share price from 185.05 (March 2022) to 201.20 (March 2023), signaling investor optimism. Key financial highlights include:

- **Adani Green Energy Ltd**: Demonstrates strong asset utilization and substantial earnings per share.
- **Adani Transmission Ltd**: Reflects strong asset management and profitability.
- **Adani Total Gas Ltd**: Shows strong market capitalization and low financial risk.

However, some businesses like Adani Enterprises reported negative ratios, indicating potential financial instability. Overall, long-term financial trends revealed effective asset management and revenue generation across the group (**Table -4**).

8.4 Impact of the Hindenburg Report on Adani Group Companies

The Hindenburg allegations caused financial volatility, with a temporary drop in share and bond prices. Despite the group's efforts to reassure investors through personal meetings and loan repayments, market recovery was gradual. The declining debt ratio suggests a potential reduction in future funding costs (**Table 5**).

8.5 News Analysis of Hindenburg Report on Adani Group Companies

Recent news reports highlight the Adani Group's response to the Hindenburg Report:

- **Livemint (July 2023)**: Gautam Adani dismissed the allegations, citing the group's solid financial track record, including a 36% rise in EBITDA for FY22-23.
- **The Hindu**: Reported a 32.9% YoY increase in EBITDA for Q2 2024, driven by growth in solar power, wind energy, and infrastructure projects.

The group's strategic focus on green energy and infrastructure has helped sustain growth despite controversies.

8.6 Strategic Shifts and Risk Mitigation of Adani Group Companies

The Adani Group has implemented several key strategies to navigate financial challenges:

1. **Abandonment of High-Risk Projects**: Scaled back a 1,200 MW power plant in Chhattisgarh and other high-risk projects
2. **Termination of Cement Unit Agreement**: Terminated the deal with Orient Cement to focus on core operations and minimize risks.
3. **Debt Reduction**: Raised 100-120 billion through a share sale, reducing liquidity risk and improving credit ratings.
4. **Strategic Realignment**: Exited non-core businesses and postponed large international projects to focus on domestic operations.

8.7 Investor Confidence and Market Perception Regarding Adani Group Companies

The group has effectively communicated its strategic changes, leading to restored investor confidence. Major investors, such as Life Insurance Corporation of India, have maintained support, signaling trust in the group's long-term viability.

8.8 Challenges faced by Adani Group Companies

The Adani Group faces challenges related to environmental and social responsibility. Issues like deforestation and land acquisition have damaged its reputation and financial performance. To address these challenges, the group must prioritize sustainability initiatives, engage with local communities, and implement robust environmental policies to maintain long-term growth (**M. Rakshekhar, 2023**).

9. Findings of the Study

The Hindenburg Research Report prompted Adani Group to focus on debt reduction, risk mitigation, and abandoning high-risk projects. Despite initial setbacks, the group maintained stable credit ratings and successfully raised new debt. Despite controversies, Adani Group retained investor confidence, with major investors like Life Insurance Corporation of India, who continue to associate with the company. FY24 witnessed a 45% rise in EBITDA and significant profit after tax.

10. Suggestions

- The Adani Group should focus on enhanced transparency and communication.
- The group can diversify its sources of funds and restructure strategies with green bonds and sustainable options.
- Classify, prioritize, and initiate environmental and social governmental practices and adopt renewable energy options to improve reputation.
- The group should focus on core business areas like energy and infrastructure and minimize associated risks with non-ventures.
- The group can enhance crisis management, by creating contingency plans for financial, operational, and reputational risks and regularly stress-testing financial models.
- Global trend analysis, strategic alliances, partnerships, ethical practices, investor engagement, and training can be monitored, analyzed, and optimized.

11. Conclusion

The Adani Group has recovered from the Hindenburg setback by implementing strategies like debt reduction, share un-pledging, and strategic investments. These measures have improved investor confidence and creditworthiness. The group's financial standing remains intact, with strong EBITDA growth, consistent credit ratings, and investor confidence. Despite fluctuations in subsidiaries, the overall trajectory suggests strategic realignment for long-term stability. The group's commitment to financial discipline, transparency, and long-term growth has restored investor confidence and positioned itself for expansion. According to **Fresh Essays (2023),** the crisis has also strengthened the group's resolve to build stronger relationships with stakeholders, potentially leading to enhanced corporate governance practices and improved stakeholder relationships. The group's resilience and strategic maneuvering have been instrumental in its recovery However, challenges like environmental violations and government favoritism necessitate increased transparency and ethical business practices.

12. Limitations of the Study

The study on Adani Group's financial stability and strategic responses, was based on secondary data sources, which may be incomplete or subject to biases. The analysis focused on publicly listed companies, potentially excluding private subsidiaries. The data were limited to March 2017 to June 2024, which may not be able to capture recent developments or future changes. The study may not fully account for external factors, subjectivity in media analysis, and the complexity of financial models. The study lacks access to internal data, which could provide deeper insights into decision-making processes. Potential bias in source selection and the generalizability of findings may also be a concern.

13. Scope for Further Study

The Adani Group could be subject to long-term study, to assess its financial health and strategic realignment, considering external factors like global economic conditions and government policies. Further research can also analyze private subsidiaries, compare them with other conglomerates, and explore internal data.

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Table - 1 : Altman Z-Score Indicators for Financial Stability of Adani Group Companies

Z-Score Range	Indicator	Conclusion
1.81 or Less	Bankrupt	Risky area, most likely to experience bankruptcy
From 1.81 to 2.99	Gray zone	Preserve caution, bankruptcy cannot be foreseen with certainty
Beyond 2.99	Stable	Indication of bankruptcy

Source: https://www.topstockresearch.com/rt/Financial/ADANIENT/AltmanZScore and Compiled by Authors in MS Excel

Table-2 : Revised Altman Z-Score Indicators for Assessing Financial Stability of Adani Group Companies Post-Hindenburg Allegations

Z-Score Range	Indicator	Conclusion
1.1 or less	Bankrupt	Risky area, most likely to experience bankruptcy
From 1.1 to 2.6	Gray zone	Exercise cautious; bankruptcy cannot be foreseen with certainty
2.6 or More	Stable	No indication of bankruptcy

Source: https://www.topstockresearch.com/rt/Financial/ADANIENT/AltmanZScore and Compiled by Authors in MS Excel

Table-3 : Piotroski F-score and Financial Performance of Adani Group Companies (2017-2023)

Sr. No.	Sector	Company	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21	March 22	March 23	24 May 2023	Piotroski F-Score March 2022
1	Energy and Utilities	Adani Enterprises Ltd	1.80	1.32	1.85	1.82	3.31	2.61	2.18	2.74	7
3	Transportation and Logistics	Adani Ports and SEZ Ltd	3.05	3.17	2.67	2.03	3.07	2.73	2.1	2.68	6
4	Incubation	Adani Green Energy Ltd	0.129	-0.026	0.374	0.689	6.69	4.25	2.00	1.98	5
5	Airports	Adani Total Gas Ltd	1.77	2.11	11.19	7.88	51.66	72.62	22.19	19.53	5
6	Materials	Adani Transmission Ltd	1.40	1.92	0.983	1.12	2.29	4.88	1.95	2.18	7
7	Others	Adani Power Ltd	0.372	0.064	0.421	0.244	0.632	1.15	1.77	1.95	9

Source: Topstockrsearch.com and Computed by using MS Excel

Table-4 : Key Financial Ratios of Adani Group Companies Post-Hindenburg Report (2023)

Financial Ratios	AEL	AGEL	APSEZ	APL	ATGL	ATL
Capital Employed/Total Assets	-0.066	0	0.088	0	-0.284	-0.0288
Earnings Per Share/ Total Assets	0	0.089	0.453	0	0	0.103
Total Assets/ EBIT	0.175	0.213	0.274	0.423	0.474	0.278
Gross Income / Total Assets	0.968	0.116	0.168	0.452	0.830	0.237
Market Capitalization / Total Debt	1.66	1.56	1.70	1.08	18.51	1.59

Source: Topstockrsearch.com and Computed by using MS Excel

Table-5 : Leverage and Debt Metrics of Adani Group Companies (2023)

Particulars	EBITDA (INR Bn)	Run Rate EBITDA (INR Bn)	Gross Debt (INR Bn)	Net Debt (INR Bn)	Gross Leverage Ratio	Gross Debt to Run Rate EBITDA Ratio
Adani Enterprises Ltd (AEL)	50	87.13	284.83	245.67	5.70x	3.27x
Adani Green Energy Ltd (AGEL)	39.55	66.44	443.9	405.23	11.22x	6.68x
Adani Ports and SEZ Ltd (APSEZ)	120.99	130.55	456.37	327.13	3.77x	3.50x
Adani Power Ltd (APL)	138.69	154.75	414.18	386.29	2.99x	2.68x
Adani Total Gas Ltd (ATGL)	8.15	8.15	9.95	6.06	1.22x	1.22x
Adani Transmission Ltd (ATL)	54.93	60.04	274.91	244.24	5.01x	4.58x

Source: https://www.moneycontrol.com and Computed by using MS Excel