



## INSIGHT: SOUTH ASIA

# Indian tycoon Gautam Adani's conglomerate sees value plummet



### THE TAKEAWAY

India's Adani Group, consisting of seven companies, has been in the spotlight following the release of a January 24 report that alleges the conglomerate oversaw one of the "largest cons in corporate history." As India helms the G20 presidency in 2023, there is an increased focus on the country's economic sustainability. Against the backdrop of the company and its founder's connections across the political spectrum, the company's engagement across various economic sectors, and the possible ripple effects of its fall, the question is if the Adani "debacle" could make or break the deal for an emerging economy like India.

### IN BRIEF

India's most prominent business tycoon and one of Asia's richest people, Gautam Adani, recently saw his conglomerate's value [halved](#) in just two weeks. The company once worth C\$289 billion (17.8 trillion Indian rupees) was the subject of a report by the U.S.-based activist short-selling group [Hindenburg Research](#), which accused the company and Adani of stock manipulation, accounting fraud, and the use of tax havens. With two years' worth of research and

"evidence" to back up their allegations, Hindenburg's report caused a stir, zapping investor confidence in the Adani Group.

### IMPLICATIONS

Adani Group's rebuttal, published on January 30, [called](#) the Hindenburg report a "calculated attack on India . . . and the growth story and ambition of India," sparking a debate about the conflation of Adani's identity with that of India. Adani Group's meteoric financial growth has been [linked](#) to its longstanding partnership with Indian Prime Minister Narendra Modi and his Bharatiya Janata Party (BJP)-led government. The Adani-Modi relationship can be traced back to the fateful 2002 Gujarat riots, after which Adani helped revive Gujarat's economy, subsequently rehabilitating Modi's image among politicians and in the private sector, and paving the way for Modi's national election campaigns. Since 2014, Adani Group has aligned their investments with India's developmental goals. For example, contradicting his image as a [coal baron](#), Adani pledged to invest billions of U.S. dollars in renewable energy in keeping with the Indian government's goals.

With the G20 leaders' summit approaching in September and India surpassing China as the world's most populous country, this is a crucial time for India to attract investors. However, the Adani Group's fall has rattled the broader Indian stock market and caused investors to [re-evaluate](#) the prospects of their revenues, straining the Indian economy. The sell-off in Adani Group's stocks has dropped the country's [ranking](#) to third out of 24 countries on the Morgan Stanley Capital International Emerging Markets Index, which tracks the development of emerging market economies. India's dip in the rankings could decrease its trade volume, foreign direct investment, and its ability to develop financial and regulatory institutions.

Some investors have criticized state insurer Life Insurance Corporation of India (LIC) for its investment and debt exposure in Adani-owned companies. The Indian government claims that [one per cent](#) of LIC's total assets under management are invested in the Adani Group. As the government already controls a majority stake in LIC, the Adani-Modi nexus becomes even more conspicuous. While the possibility of short-term market volatility may affect the typical taxpayer, the advantage of the Adani business model lies in its long-term (and relentless) monopolizing of the Indian market through its apparent governmental tie-in — a classic example, some say, of [crony capitalism](#).

As a short-seller, Hindenburg made it clear when releasing the report that it stood to profit from Adani's losses. It has [targeted](#) 30 other companies in the past, but Adani is the largest and brings into question Hindenburg's motives in going after the conglomerate. Considering Adani's role as a reliable business partner and, so far, an integral part of Modi's vision of nation-building, it remains to be seen whether Modi will bail out Adani. Modi's handling of the Adani situation could also impact the BJP's general election outcomes in 2024.

## WHAT'S NEXT

### 1. Adani factor in the Indian stock market

If Hindenburg Research's allegations prove to be true, it could diminish confidence in the Indian stock market, increase scrutiny of Indian companies, and discourage investment in the country. Alternatively, Adani could use Hindenburg's allegations to fix company estimates and ensure a more efficient dissemination of investor capital, reinstating a sense of transparency and accountability in the public realm.

### 2. Indian economy's dependency on family businesses

India's economic boom is enmeshed in the growth of [family businesses](#). These businesses create capital out of India's cultural and societal values of commitment and loyalty, which helps forge strong partnerships and weather market uncertainties. Many people find stability and security by investing in family businesses, and they thrive through [pre-established networks](#), one which could put the Adani Group back on India's economic roadmap.

### 3. Effect on international relationships

Hindenburg's report may worry Adani's foreign investors. Since its publication, Adani has acquired [Israel's strategic Haifa](#) port for C\$1.5 billion (94 billion Indian rupees), raising questions about a possible risk to lenders who helped with this acquisition. Additionally, the Bangladesh Power Development Board has requested a [revision](#) of its recent power purchase [agreement](#) with Adani Power.

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