ANALYSING THE CASCADING EFFECT OF THE HINDENBURG REPORT ON ADANI GROUP OF COMPANIES

by

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ABSTRACT

One of the largest and most influential corporations in India, the Adani Group of Companies, was significantly impacted by the Hindenburg report, which was published by the Hindenburg Research corp. in January 2023. The group was charged in the study with financial irregularities, stock manipulation, and inflating the worth of its listed companies. The group was also accused of engaging in offshore tax havens and other immoral activities. The publicly traded companies of the Adani Group saw a precipitous drop in stock prices as a result, losing billions of dollars in market value in a matter of days.

Additionally, the dispute attracted regulatory notice, with requests for inquiries into the claims. Rating agencies questioned the group's creditworthiness, and a number of foreign investors re-examined their investments in Adani Group enterprises. The study threw doubt on future investments by harming the group's brand as well as investor trust in India's corporate governance. In the end, the Hindenburg report had a significant impact on India's business environment and stock market dynamics.

This paper tries to throw light on the greater impact, the report had on various strata of the economy such as on Adani Group and its listed companies, its shareholders and the Indian economic market structure. Adding to that this paper also moderately devolves into the legal and practical implications incurred aftermath of the Hindenburg report.

Keywords: *Hindenburg report, Adani Stocks, tax loss harvesting, stock manipulation and SEBI.*

INTRODUCTION

As South African saying "*even an ant can hurt an elephant*" a mere report published by a research firm against the conglomerate owned by the business tycoon Mr.Gautam Adani called ADANI GROUPS, has laid the company on appalling weather. The Adani Group of company was founded and chaired by Mr. Guatam Adani as a publicly listed Indian Multinational company which has a variety of interests, including ports, airports, green energy, and the production and transmission of electricity. After starting out as a commodities trading company in 1988, the Adani Group grew through acquisitions into India's 2nd largest conglomerate having its net worth of about $62.7billion[1] as on Nov 28, 2024, according to Forbes Report[2]. Another important player with regard to this paper is Hindenburg Research is a private limited research entity based in New York founded and operated by Nate Anderson, which primarily investigate into corporate world offences and having specializes in forensic financial research. This entity squarely investigate into matters of accounting irregularities, bad actors in management or key service provider roles, undisclosed related-party transactions, Illegal or unethical business or financial reporting practices, undisclosed regulatory product, or financial issues. The issue arises when Adani group of companies fall within the radar of Hindenburg which published an extensive report of about 33,000 words detailing the allegations and evidences against Adani group. This paper tries to analyze how non-binding report has impacted the share value of the company within hours of its publication and impact on the income of the minority shareholders of the company and on the other relevant persons.

LITERATURE REVIEW:

1. **Mallesha L and Archana H. N** on '<u>Impact of Hindenburg Research Report on the Stock Prices of Adani Group Companies: An Event Study'</u>, a study conducted on 2023 concluded that the stock prices of Adani Group companies were significantly impacted by the Hindenburg Research report, suggesting that the Indian stock market may not have been as effective in its semi-strong state during 20 days after the report which is the study period.

[1] Forbes declares Mr Gautam Adani as the 24th richest man in the world as on Aug 2024.
[2]Adani group is the 25th richest conglomerate in the world as on 28/11/2024 published at Forbes https://www.forbes.com/profile/gautam-adani-1/.

2. **Diya Bajaj, D Rudra Patil, P Madhavi** on "A Study on Evolution of Adani Group of Industries- It's Resilience in Indian Industries" a study conducted on 2024 concluded that many of the Adani enterprises suffer significant loss from the Hindenburg report and many of the stocks aren't recovered fully yet but the effects of its impact are slowly being nullified.

3. **Jayanta Bhattachary** on "Hindenburg Report and the learning for the MOGI[3] Company Top Executives and Directors[4]" a study conducted on 2023 concluded that access to debt and loan information of Adani enterprises in various platform resulted in an unknown individual publishing a report which impacted a company heavily.

RESEARCH PROBLEM

Analysing the ripple effects of the Hindenburg Research report, which accused the Adani Group of Companies of stock manipulation and financial irregularities, is the primary objective of the research problem. The report's publication caused a sharp drop in the Adani Group's stock price, which alarmed investors and sparked debate about corporate governance procedures. The purpose of this study is to examine the repercussions on the financial stability of the Adani Group, investor confidence, market perception, and the Indian regulatory environment. By examining these impacts, the study seeks to understand the broader implications of such financial scandals on the reputation and operational success of large corporate entities.

RESEARCH QUESTIONS

1. Whether report published by the Hindenburg research institute had an impact on Adani stocks.
2. Whether the impact on Adani stocks has a repercussion on shareholder's income.
3. Ramifications of tax liability of shareholder, aftermath the publication of the report.

RESEARCH METHODOLOGY

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[3] Mineral Oil Gas Integrated Company (MOGI).

[4] This paper detailes about the how corporate governance should be undertaken and how datas to be collected so as to not fall into the trap of short selling investigators.

This paper employs an Event study method based on Doctrinal research, in which an event is taken into account and its impact is studied and analyzed to arrive at a conclusion. This paper uses secondary sources which is available in the nature of reports and publications.

HINDENBURG REPORT ON ADANI GROUP OF COMPANIES-AN OVERVIEW:

Hindenburg published a report on 24th January of 2023 against Adani group of companies. This is a 200 pages amounting to 33000 words report came as a result of 2 years of tedious investing conducted by the Hindenburg on the title "***Adani Group: How The World's 3rd Richest Man Is Pulling The Largest Con In Corporate History***" that stirred a forest fire in the corporate world. The investigation into the Adani Group reveals serious allegations of stock manipulation, accounting fraud, and violations of both securities regulations and tax laws, particularly concerning the group's publicly listed companies.

Although the stock prices of Adani's seven major listed companies have increased by an average of 819%[5] over the last three years, the investigation indicates that these stocks are essentially overpriced and have an estimated 85% downside risk. It is alleged that unethical practices, such as manipulating stock ownership and pricing through the use of offshore shell companies, are largely responsible for this stock appreciation.

The Adani Group investigation uncovers serious allegations of accounting fraud[6], stock manipulation, and tax and securities law violations, particularly in relation to the group's publicly traded companies. Despite the average 819% increase in stock prices over the past three years for Adani's seven major listed companies, the analysis shows that these stocks are essentially overpriced and have an estimated 85% downside risk. It is claimed that a large portion of this stock increase is due to unethical practices, such as using offshore shell companies to manipulate stock ownership and pricing.

From a legal perspective, In India, as in the majority of nations around the globe, stock manipulation is strictly forbidden by securities laws. In order to prevent insider trading and

[5] Adani Groups Finaicial Report for the FY 22-23 as published at www.adani.in.

[6]Section 3 talks about Prohibition of certain dealings in securities under SECURITIES AND EXCHANGEBOARD OF INDIA (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET)REGULATIONS, 2003, it says under 3(a) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

market manipulation, the Securities and Exchange Board of India (SEBI) enforces regulations that mandate the disclosure of promoter holdings in publicly traded companies. The board also seeks to guarantee that the public owns a minimum of 25% of a company's shares. However, it is alleged that the Adani Group circumvents these rules by controlling a sizable portion of its stock through offshore entities. These organizations are situated in tax havens[7] like the Caribbean, the United Arab Emirates, and Mauritius, hold large stakes in Adani companies, giving the impression of widespread external ownership, while in reality, much of the stock is controlled by the Adani family. This practice, known as stock parking[8], is considered a form of stock manipulation in the legal sense, as it distorts the true ownership structure and inflates stock prices.

Another legal issue is related party[9][10]transaction[11]. According to Indian law[12], all significant transactions involving listed companies and entities under the control of their promoters—in Adani's case, the family members must be reported to shareholders and regulators. Numerous undisclosed related party transactions between Adani's listed companies and businesses owned by Gautam Adani's brother Vinod Adani[13] are discovered by the investigation. In violation of Indian disclosure laws, for example, loans were made between these entities without being disclosed as related party deals. Adani's listed companies' financial statements have been artificially inflated through these transactions, deceiving investors and their financial health.

[7] According to Investopedia, A tax haven is a country that offers foreign businesses and individuals minimal or no tax liability for their bank deposits in a politically and economically stable environment. They have tax advantages for corporations and for the very wealthy, and obvious potential for misuse in illegal tax avoidance schemes. Tax haven are not illegal but may be used for illegal businesses.

[8] Stock parking is the illegal practice of selling shares to another party with the understanding that the original owner will buy them back after a short time.

[9] Section 2(76) of Companies Act 2013, defines the term 'Related party' and it gives the list of persons to be considered as related party.

[10] Regulation 2(ZB) of LODR defines "related party" means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013.

[11] Regulation 2(ZC) of LODR defines Related Party Transactions and Regulation 4 mandates compulsory disclosure.

[12] Securities And Exchange Board Of India (Listing Obligations And Disclosure Requirements) Regulations, 2015 No.SEBI/LAD-NRO/GN/2015-16/013.

[13] "Gautam Adani's elder brother has been described by media as "an elusive figure". He has regularly been found at the center of the government's investigations into Adani for his alleged role in managing a network of offshore entities used to facilitate fraud." As stated in the report.

From a tax perspective, the use of offshore shell companies[14] by the Adani Group raises serious questions about money laundering and tax evasion. Since many of these offshore companies are based in countries with weak regulations, they are perfect for concealing the real ownership and movement of money. According to the report, these entities have been used to transfer funds to Adani businesses, enabling stock manipulation[15] and financial engineering. Furthermore, certain organizations have been connected to fraudulent import-export schemes in which fictitious documentation was used to create illegal turnover, which may have led to tax evasion or avoidance. In addition to breaking tax regulations, these actions give rise to accusations of illegal profit shifting and the abuse of overseas tax havens to avoid paying taxes in India.

Utilization of these offshore structures may also entail manipulating transfer pricing[16], which undermines India's tax base by shifting income to countries with little or no taxes. There are additional concerns regarding the entities' involvement in the Adani Group's tax evasion because they frequently lack operational substance, having no workers, no economic activities, and no real commercial presence. According to India's transfer pricing regulations, connected firms must conduct intercompany transactions at arm's length, which means that prices must accurately represent the fair market value of the goods and services being traded. But the Adani Group appears to be using offshore companies with no visible activities to evade this kind of scrutiny, which could lead to the underreporting of earnings and tax liabilities.

Concerns are also raised by the Adani Group's audit process from a legal and tax perspective. Considering the magnitude and complexity of Adani's operations, Shah Dhandharia, the firm in charge of auditing the financials of crucial Adani enterprises, is a tiny and apparently unqualified firm. Legally speaking, an auditor must guarantee that a company's financial statements are accurate and meet all legal and regulatory standards. According to the probe, the auditor may have allowed the group to manipulate its financials

[14] A shell corporation is a corporation without active business operations or significant assets. These types of corporations are not all necessarily illegal, but they are sometimes used illegitimately, such as to disguise business ownership from law enforcement or the public.

[15] Market manipulation is conduct designed to deceive investors by controlling or artificially affecting the price of securities which is prohibited under sec 4-Prohibition of manipulative, fraudulent and unfair trade practices, ibid.

[16] Section 92CE of the Income tax Act r/w R 10A-E of IT rules 1963 deals about Transfer pricing which means Transfer Price is the actual price charged in a transaction between related entities which are part of the same Multi National Enterprises (MNE) group. It is a kind of tax avoidance practice and non-compliance of which attract penalty.

and tax responsibilities by failing to notice problems including concealed related party transactions and improper stock procedures.

From this report it is inferred that, the Adani Group's alleged actions involve multiple legal and tax violations, including stock manipulation through offshore shell entities, undisclosed related party transactions, and potential tax evasion through the use of offshore structures and false financial reporting. These practices undermine both market transparency and India's tax framework, raising serious questions about the group's compliance with securities and tax laws.

The Adani Group mounted a vigorous and detailed rebuttal against the Hindenburg report, submitting a comprehensive 413-page written response on 29 January 2023 in which it categorically denied all allegations of stock manipulation, accounting fraud, and improper use of offshore structures[17]. The response, described as one of the most extensive corporate rebuttals to a short-seller report in Indian market history, maintained that all listed entities had been operating in full compliance with Indian securities law and applicable disclosure requirements.[18] The sheer scale of the counter-narrative illustrated the severity of the reputational and regulatory threat that a single forensic research report can pose to even the largest domestic conglomerates[19], and also underscored the asymmetry between the speed at which a damaging report can erode market value and the time required for a corporate entity to mount a substantive defence.

IMPACT OF REPORT ON VARIOUS STRATAS OF THE MARKET STRUCTURE

The financial world was devastated by the Hindenburg Research study, which had an especially detrimental impact on the Adani Group, one of the biggest conglomerates in India. The report's conclusions significantly impacted the stock prices of Adani Group firms,

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[17] Bloomberg on "Adani's 413 page reply to Hindenberg after $51 billion wipeout" published on Jan 30, 2023 accessed through https://timesofindia.indiatimes.com/business/india-business/adanis-413-page-reply-to-hindenburg-after-51-billion-wipeout/articleshow/97429377.cms,

[18] Adani Group, 'Adani Group Response to the Hindenburg Research Report' (29 January 2023), published at <https://www.adani.com/newsroom/media-releases/media-statement-25-jan>; see also 'Adani vs Hindenburg: Group Releases 413-Page Response to Allegations' Business Standard (29 January 2023).

[19] Jeff Katz and Annie Hancock on " Short Activism: The Rise in Anonymous online short attacks" published by Harvard Law School Forum on Corporate Governance on 27th November, 2017accessed through https://corpgov.law.harvard.edu/2017/11/27/short-activism-the-rise-in-anonymous-online-short-attacks/

causing their market value to decline[20]. The shares of Adani's publicly traded companies saw a startling $150 billion breakdown over the course of the previous year as a result of this exceptional decline. In September 2022, the Adani Group was worth a staggering $141 billion before the Hindenburg report was made public. But the report's findings quickly changed this financial environment. Following the release of the report , in the very next day Adani Group's price has drastically decreased. It is evident that investor concern caused the company's valuation to drop rapidly, and it is now worth over 50% less than it was before. The data analysis shows that the results of the AR[21] and CAR are also demonstrating that the company's share price has suffered significantly. Adani Enterprise also made FPO available to the public during this time, with a price range of 3112–3276. However, it was also forced to withdraw its FPO due to the substantial price decline

. The group's worth fell sharply from its pre-report valuation of $124 billion to $50 billion almost immediately. The impact of the report's accusations on investor trust and market sentiment towards the Adani Group was highlighted by the market capitalization's precipitous decrease. The results of the Hindenburg study probably caused investors to become quite alarmed and suspicious, which resulted in a large-scale sell-off of Adani Group stock. Red flags were clearly raised by the report's in-depth analysis of the conglomerate's financial statements and business operations, which caused investors to re-evaluate their holdings and sell off Adani-related assets. This quick decline in market value demonstrates how even the most well-known corporations are susceptible to the negative effects of adverse publicity and investor distrust.

The seven key listed companies of Adani which as under the allegation by Hindenburg report was severely hit in share values which given below[22]

1. **Adani enterprises -** The stock of Adani enterprises dropped to a low of ₹1,017, representing a 70% decline. It wasn't until May 23, 2024, that the stock fully recovered to its pre-report levels.

[20] Adani Stocks M-Cap Plunges Nearly 50% In 7 Sessions After Hindenburg Report: 10 Latest Updates; Business Today published on 04th Feb, 2023https://www.businesstoday.in/latest/corporate/story/adani-stocks-m-cap-plunges-nearly-50-in-7-sessions-after-hindenburg-report-10-latest-updates-368918-2023-02-04.
[21] Account receivable (AR) and Capital Adequacy Ratio (CAR).
[22] These data are inferred from news publication at livemint published on 11 Aug 2024 accessed through https://www.livemint.com/market/stock-market-news/hindenburgadani-case-heres-a-look-back-at-how-much-adani-group-stocks-fell-in-january-2024-after-hindenburg-report-11723360175760.html.

2. **Adani Wilmar** -The results of Adani Wilmar's operations continue to let investors down. The stock has seen a 50% decline, from ₹573 to ₹286, and has had difficulty regaining its prior worth.
3. **Adani power -** The stock experienced a 52% decline, dropping from ₹275 to ₹132.
4. **Adani Ports-** The stock experienced a 48% plunge to ₹395 on the Hindenburg report. On May 23, 2023, it finally recovered to its pre-report level after 119 days.
5. **Adani solutions-** he stock dropped from ₹2,726 to ₹632, a decline of 77 %
6. **Adani Green Energy -** Adani Green Energy's stock fell 75% after the report, from ₹1,917 to ₹485.
7. **Adani Total Gas-** The most severely affected is Adani Total Gas, whose stock price has fallen 83 percent, from ₹3,892 to ₹650.

To put in a succinct way, the Adani Group's financial situation and market perception were significantly and immediately impacted by the Hindenburg Research. Following the report's publication, the group's wealth and share prices saw a sharp decrease, which highlights the ability of investigative research to impact investor behaviour and mold corporate company's trajectories in the global financial landscape.

A critical catalyst for the subsequent market recovery was the entry of GQG Partners, a prominent United States-based global equity investment boutique listed on the Australian Securities Exchange, which completed the acquisition of shares worth approximately Rs 15,446 crore (USD 1.87 billion) across four Adani Group companies on 2 March 2023[23]. This block deal, brokered by Jefferies India Private Limited, represented the single largest institutional vote of confidence in the Adani Group following the Hindenburg-induced rout and triggered an immediate rally across the group's listed stocks.[24] By January 2024, one year after the Hindenburg report's publication, the group had substantially recovered its pre-report market capitalisation levels, with the combined market value of listed group companies rising from a post-Hindenburg low of approximately Rs 6.8 trillion to over Rs 15 trillion. This

[23] Adani Portfolio Companies Complete INR 15,446 Cr Secondary Equity Transaction with GQG Partners accessed through https://www.adani.com/newsroom/media-releases/adani-portfolio-companies.
[24] Adani Group, 'Adani Portfolio Companies Complete INR 15,446 Cr Secondary Equity Transaction with GQG Partners' (Press Release, 2 March 2023) <https://www.adani.com/newsroom/media-releases/adani-portfolio-companies>.

recovery demonstrated the resilience of large, diversified conglomerates in recovering from sentiment-driven market shocks once institutional confidence is re-established.[25]

IMPACT OF REPORT ON THE SHAREHOLDER:

This report has raised concerns among the shareholders of the Adani company about the credibility and trustworthiness of the company along with fear of holding share which is at the risk of any time loss. Basically the decline in value of the shares and stocks of the company will not per se affect the real-time amount of the investor but the paperless value of the stock. Hence if stocks of the company suffers loss then investor may experience either of the two kinds of the loss i.e., unrealized losses or realised loss. The former will be the case when the stocks of the company are down that will be reflected in the value of the company but it will not impact the shareholder in his/her taxable income. But in the latter case, with the fear of experiencing loss shareholder may sell the share at the low price so as to avoid future loss which will lead to risk of loss on the part of shareholder. That is when these people engage in the process of tax loss harvesting which is not declared illegal by the current taxing statutes.

Tax loss harvesting

Tax loss harvesting refers to the process of selling some assets as a loss to set them off with gains on other assets. However, there is no guarantee that these losses will be recovered.

There are no specific provision as to tax loss harvesting in taxing statutes as of now as mentioned before.

Tax loss harvesting involves 3 steps.

1. Selling securities that have decreased in value.
2. And utilizing the capital loss to counterbalance capital gains from other sales.
3. Substituting the sold investments with similar investments to uphold the preferred investment exposure.

Engaging in tax loss harvesting to balance loss against profit is not absolute but comes with the check in the form of WASH SALE rule.

[25] Khushboo Tiwari, 'One Year of Hindenburg: Adani Group Up, Recouping Market Cap Losses' Business Standard (24 January 2024) <https://www.business-standard.com/markets/news/one-year-since-hindenburg-adani-group-up-recouping-market-cap-losses-124012400857_1.html>.

According to **Wash sale[26],** any asset that is sold at a loss and then repurchased within 30 days of sale cannot be offset against any profits or used for any other tax-related purposes. Therefore, taxpayers are required to wait 30 days after selling the asset to repurchase any other asset, either similar or different in nature[27].

If at all Hindenburg report had not negatively impacted the stocks of Adani Groups in the way which it did there would not have arisen the need for the shareholders to engage in such a process to reduce their taxable income there by reducing their tax liability.

SEQUEL OF HINDENBURG REPORT ON INDIAN MARKET

Hindenburg Research is basically a research company making huge profits out of its short selling strategies.

Short selling- according to the conventional definition it means Investors that use the short selling trading method wager that a stock's price will drop. Short selling is borrowing shares of a stock and selling them at the present market price in order to purchase them back later at a lower price, as opposed to the conventional strategy of purchasing a stock with the expectation that its price would increase (going long).

Steps involved in short selling[28] are as below:

i. Borrowing shares: A broker lends shares of a stock to the short seller.
ii. Selling shares: At the present price, the borrowed shares are sold on the open market.
iii. Repurchase (covering): The short seller then repurchases the same quantity of shares, preferably at a reduced cost.
iv. Returning shares: The short seller keeps the difference between the buying and selling prices once the bought shares are sent back to the broker.

According the report from Bloomberg[29], inferring from the statement released by the Hindenburg it is noted that Hindenburg has gains the sum of $4 millions from its short selling position on Adani stocks.

[26] Abhishek C A on Everything you should know about Tax Loss Harvesting published at https://tax2win.in/guide/tax-loss-harvesting dated 24 Jul 2024.
[27] https://www.jpmorgan.com/insights/wealth-planning/taxes/what-is-a-wash-sale-things-to-know.
[28] Adam Hayen on Short Selling: Your Step-by-Step Guide for Shorting Stocks published on 25th Oct 2024 at https://www.investopedia.com/terms/s/shortselling.asp#:~:text=Error%20Code%3A%20100013)-,Definition,shares%20back%20for%20less%20money.

Short-selling can be a profitable strategy for organisations, but it can also have a significant impact on the economy of a country.

For a more accurate picture of the direct FPI impact traceable to the Hindenburg report, the relevant reference period is January 2023, the month in which the report was published. According to data compiled by the National Securities Depository Limited and reported by Business Standard, FPIs sold Indian equities worth approximately Rs 28,852 crore (USD 3.51 billion) in January 2023[30], the highest monthly outflow in seven months. Market analysts cited the Hindenburg-triggered selloff in Adani Group stocks as one of the primary contributing factors, alongside capital reallocation to relatively cheaper equity markets in China and Taiwan following Beijing's relaxation of COVID-19 restrictions.[31] The concentrated selloff in a single conglomerate's shares producing such a sharp and sustained index-level impact pointed to the systemic interconnectedness between large promoter-driven groups and the broader equity benchmark in India. This underscored the importance of structural safeguards to prevent the adverse externalities of short-seller disclosures from cascading into broader market instability.[32]

HINDENBURG-ADANI CASE:

Many petitions were filed before Hon'ble Supreme court to probe into the report of Hindenburg and credibility of SEBI in investing the matter. These petitions also sought Supreme Court to constitute a Special investigation team to investigate the matter. The matter came before the full bench of Supreme court consisting of Dhananjaya Y Chandrachud CJI, J B Pardiwala. J, Manoj Misra .J by held that it has limited power of judicial review over the functioning of the specialised statutory body thereby dismissing the claim of setting up the SIT. The court further directed SEBI to conclude the remaining 2 investigation pending against Adani Group of companies out of 24, with 2 months from the date of the judgment and submit its report to the court. The court also constituted the expert committee to look into

[29]Report dated 2 Jun 2024 titled Hindenburg Made Just $4 Million From $153 Billion Adani Rout at https://www.bloomberg.com/news/articles/2023-01-25/adani-group-stocks-drop-after-hindenburg-takes-short-position.

[30] FPIs register steepest outflow in 7 months at Rs28,852 crore in January" pushed by The Hindu on 05th Feb 2023 accessed through https://www.thehindu.com/business/Industry/fpis-register-steepest-outflow-in-7-months-at-28852-crore-in-january/article66473934.ece.

[31] Bharath Rajeswaran, 'FPI Selling Hits Seven-Month High on Rich Valuations, Adani Group Rout' Business Standard (6 February 2023) <https://www.business-standard.com/amp/article/markets/fpi-selling-hits-seven-month-high-on-rich-valuations-adani-group-rout-123020600243_1.html>.

[32] ibid.

the intricacies of the issue in hand which submitted the report to the court with various suggestions from its observation of the situation.

The court expressed its concerns over the volatile nature of market structure which is responding to the random short-sellers report and emphasised on the financial literacy among all the citizen of the country to run the stable market economy[33].

The expert committee constituted by the Supreme Court comprised six distinguished members: retired Supreme Court Justice Abhay Manohar Sapre, who served as chairperson, along with Mr O P Bhatt (former Chairman of the State Bank of India), retired Justice J P Devadhar, Mr K V Kamath, Mr Nandan Nilekani, and Mr Somasekhar Sundaresan. The committee submitted its report to the Supreme Court in a sealed cover on 8 May 2023, within the two-month period directed by the court.[34] The report concluded that, on the basis of material available to it, the committee was unable to determine that the Securities and Exchange Board of India's handling of the alleged securities law violations by the Adani Group amounted to a 'regulatory failure'[35]. The committee also made several recommendations for strengthening the statutory and regulatory framework governing listed companies, including improved disclosure norms for foreign portfolio investors and enhanced investor awareness mechanisms. In its final judgment dated 3 January 2024, the Supreme Court directed SEBI and the Union Government to constructively consider the committee's recommendations.[36]

HINDENBURG REPORT ON ADANI GROUP -SEBI CHIEF

Hindenburg Research did not stop there on 10th August 2024 but it went to publish another report alleging the connection between SEBI Chief Madhabhi Buch over the malpractices undertaken by Adani on the title "***Whistle-blower Documents Reveal SEBI's***

[33] Vishal Tiwari -Vs- Union of India & Ors (2024) Writ Petition (C) No. 162 of 2023 judgment dated 03rd Jan 2024.
[34] Business Today, 'Adani-Hindenburg Row: SC Sets Up Six-Member Expert Committee Headed by Former Justice AM Sapre' (2 March 2023) <https://www.businesstoday.in/latest/corporate/story/adani-hindenburg-row-sc-sets-up-six-member-expert-committee-headed-by-former-justice-am-sapre-371968-2023-03-02>.
[35] "Adani-Hinderburg row: Expert panel submits its findings to Supreme Court"published by Legal Eagle plus on 10th May 2023 accessed through https://www.legaleagleweb.com/newsdetail.aspx?newsid=6082.
[36] Vishal Tiwari v Union of India and Others Writ Petition (Civil) No 162 of 2023 (Supreme Court of India, 3 January 2024); see also 'Supreme Court Upholds SEBI's Investigation Findings on Adani Group' IndraSTRA Global (4 January 2024) <https://www.indrastra.com/2024/01/supreme-court-upholds-sebis.html>.

Chairperson Had Stake in Obscure Offshore Entities Used in Adani Money Siphoning Scandal"[37]

According to a research by Hindenburg Research, Madhabi Puri Buch, the SEBI chairman, and her spouse had stakes in offshore firms affiliated to the Adani Group. They were specifically accused of investing in a sub-fund of the Global Opportunities Fund, a Bermuda-based fund that was used to trade Adani Group securities by organizations linked with the company. Hindenburg contended that this link might account for SEBI's tardiness in looking into the Adani Group's operations. Buch, however, denied any misconduct, claiming that all required disclosures were made at the time the transactions were made and before she was appointed chair of SEBI. Furthermore, the IPE-Plus Fund 1, which Buch invested in, made it clear that it did not purchase shares of the Adani Group[38].

According to India Today, the S&P BSE Sensex fell by 56.99 points to end at 79,648.92, while the NSE Nifty50 dropped 20.50 points to 24,347 after the report alleging the investment of share in the Adani shell company by SEBI Chief Madhabi and her spouse[39]

In a statement endorsing Buch's stance, SEBI[40] cautioned investors against responding hastily to such claims. Six Adani Group firms received show-cause notices, signalling possible disciplinary action, as part of the Adani Group inquiry, which SEBI said it had finished investigating 23 of 24 instances. Hindenburg also received a show-cause letter from SEBI for allegedly breaking Indian regulations, which the short seller made public.

A significant epilogue to the Hindenburg-Adani saga came on 15 January 2025, when Nate Anderson publicly announced the dissolution of Hindenburg Research, citing personal reasons and the cumulative toll of running a high-profile investigative firm over seven years of operations. Anderson stated that the firm had completed the pipeline of investigative work it had been conducting, including cases referred to financial regulators in the United States,

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[37]" Whistleblower Documents Reveal SEBI's Chairperson Had Stake In Obscure Offshore Entities Used In Adani Money Siphoning Scandal" published on 10th Aug 2024 at https://hindenburgresearch.com/sebi-chairperson/.

[38] Jayasree upadhyay on Hindenburg alleges India market regulator chief held stake in offshore funds used by Adani Group dated 11th Aug 2024 at https://www.reuters.com/world/india/hindenburg-research-alleges-india-market-regulator-chief-held-investments-2024-08-10/.

[39] Hindenburg vs Sebi Chief: Who said what and how it has impacted stock market published on IndiaToday on 12th Aug 2024 at https://www.indiatoday.in/business/story/hindenburg-vs-sebi-chief-who-said-what-and-how-it-has-impacted-stock-market-2581136-2024-08-12.

[40] SEBI statement on the Hindenburg Research's Report dated August 10, 2024 on PR No 17/2024 published on 11th Aug 2024 as 2 page Press release at https://www.sebi.gov.in/media-and-notifications/press-releases/aug-2024/sebi-statement-on-the-hindenburg-research-s-report-dated-august-10-2024_85606.html.

and that the time had come to move on.[41] The announcement was followed, on 16 January 2025, by a broad rally in Adani Group listed stocks, with shares across the group rising between approximately 1.8 per cent and 6 per cent on that trading day. The closure of Hindenburg Research did not, however, extinguish the regulatory proceedings that its reports had set in motion: SEBI had by then completed investigations into twenty-two of the twenty-four cases identified in the context of the Hindenburg allegations, with its final orders issued in September 2025 finding no violations established in the concluded matters.[42]

SUGGESTIONS

After the Hindenburg Report, Adani Group stocks fluctuated, although the market was not at systemic risk.

It was suggested that SEBI enhance real-time stock volatility data and guarantee improved index construction.

- Further emphasis should be laid on how short-selling, especially by Hindenburg Research, contributes to volatility hence the SEBI, the important market regulator should look into any possible legal infractions associated with these kinds of operations. It is also demanded that short-selling laws be reviewed in order to maintain market integrity and openness.
- Informed decisions made by an aware investor population are a pre-requisite to an efficient market[43].
- ASM[44] and GSM[45] technologies alone are insufficient; investors must also be made aware of increased surveillance through techniques like alerting clients when equities are subject to ASM or GSM at the order entry point.

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41 Nate Anderson, 'Disbanding Hindenburg Research' (Hindenburg Research Blog, 15 January 2025) <https://hindenburgresearch.com>; see also 'Hindenburg Research Founder Says He's Closing Short-Seller Research Shop' CNBC (15 January 2025) <https://www.cnbc.com/2025/01/15/hindenburg-research-founder-says-hes-closing-short-seller-research-shop.html>.

42 Business Standard, 'Adani Group Shares Rally as Hindenburg Research Announces Closure' (16 January 2025) <https://www.business-standard.com/amp/markets/capital-market-news/adani-group-shares-rally-as-hindenburg-research-announces-closure-125011600260_1.html>.

43 SEBI, Analysis of Profit and Los of Individual Traders dealing in Equity F&O Segment dated 25 January 2023, available at https://www.sebi.gov.in/reports-and-statistics/research/jan-2023/study-analysis-of-profit-and-loss-ofindividual-traders-dealing-in-equity-fando-segment_67525.html#.

44 It is a Market Surveillance Technology known as Additional Surveillance Technology ASM,introduced by SEBI in order to enhance market integrity and safeguard interest of investors and one thing to note under ASM is pledging of stocks under ASM is not possible and if already pledged stocks are under ASM then collateral security will be withdrawn.

- Structural Reform: To improve adherence to the law, SEBI should guarantee enhanced transparency in the legislative process and engage the public more in legal contributions.
- Effective Enforcement Policy: In order to ensure compliance with its legal framework and apply regulations in a prospective manner, SEBI must optimize resources and establish explicit enforcement strategies.
- Judicial Discipline: Adjudicating officers and whole-time members are required to follow appellate decisions and precedents consistently in their determinations.
- Settlement Policy-In order to be amenable to settlements where financial harm is consistent with the alleged breach, SEBI should have a strong settlement policy with well-defined criteria.
- timelines: In order to ensure that cases are resolved on time, SEBI must set and adhere to stringent timeframes for investigations, proceedings, and settlements.
- Surveillance and Market Administration: In order to ensure that data is machine-readable and compatible with electronic systems, SEBI should reduce the amount of human discretion in its regulatory operations.
- Follow Previous Reforms: SEBI should put into practice earlier reform recommendations, such as establishing a Financial Redress Agency, centralizing the recovery of unclaimed property, establishing a multi-agency committee for difficult cases, and making sure that the executive and quasi-judicial branches of SEBI are kept apart.

CONCLUSION

The report as released on 24th Jan 2023 by Hindenburg Research against Adani group had a far reaching consequence in the stock price of the company, the impact of these reports on the targeted companies can be significant, causing the stock price to decline and, in some

[45]GSM is a MarketSurveillance Mechanism introduced by SEBI with the objective to alert and advice investors to be extra cautious while dealing in these securities and advice market participants to carry out necessary due diligence while dealing in these securities.teh main difference between ASM and GSM is that While ASM controls volatility, GSM acts like a safety net for the stock market.

cases, leading to bankruptcy. Plus, this causes the country's economic growth to stall and creates financial distress. This indicates that the Adani-Hindenburg saga might also be a well-planned conspiracy to derail the Indian economy as claimed by many Indian politicians. The Apex court[46] stated that market regulators should develop mechanism to combat and overcome the external factor's reports and comments affecting the internal market structure.

[46] Ibid 24.

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