CLIMATE ENERGY FINANCE

Crony Capitalism is at the heart of the Adani family empire

Tim Buckley, Director, Climate Energy Finance, 13 February 2023

—

The Adani family, headed by school dropout Gautam, rose to being the third richest in the world. How did this happen? US based short selling research firm Hindenburg's comprehensive allegations of fraud and stock market manipulation, embodied in its explosive 24 January report, have turned a spotlight on the family's previous meteoric rise.

The report triggered a sell off that has seen the Adani Group shed half its stock market value in the last three weeks (see Figure 1). However, the conglomerate is still a corporate behemoth, with the gross value of the family's share of nine listed Indian controlled entities standing at a collective ~US$69bn (gross of margin loans and private debt, but before counting any of the alleged offshore equity stakes).

We have tracked the Adani family for a decade, and their elevation has one key cornerstone – crony capitalism. Our close examination of financial and contractual interactions between government entities and the Adani Group shows that, to become the first amongst equals in India, the Adani family has had considerably more than its fair share of support, particularly since 2014. While the list is very long, we outline some examples below.

The Government of India (GoI) owned Life Insurance Corp (LIC) of India – India's biggest insurer and largest domestic financial investor – had total listed Adani group shareholdings of US$6.8bn as of 27 January 2023, having acquired these shares over a period of time, including an acquisition of US$770m worth in the month of January 2023 alone. This includes a 9% stake in Adani Ports, a 4% stake in Adani Enterprises Ltd and a 5% stake in Adani Total Gas. These shareholdings represent a substantial 14% of LIC's current equity market capitalisation of US$48bn, which is down from US$73bn at the IPO in May 2022 (notwithstanding that the LIC declares this as exposure is ~1% of total assets under management of US$505bn).

The public owned Punjab National Bank has disclosed an exposure of Rs70bn (US$0.8bn).

The Nation Stock Exchange (NSE)-listed majority Indian government owned State Bank of India (SBI) has disclosed it has a Rs270bn (US$3.3bn) loan exposure to the Adani group of companies.

SBI has long been pressured to lend Rs50-60bn (US$0.6-0.7bn) to Adani's Carmichael coal mine in in the Galilee Basin, in Queensland, Australia, since it was outed on its intention to do so by the Adani Group back in 2014. This is despite this project being subject to a decade of community protests that effectively removed its social licence, and with no known financiers in Australia. To-date there has been no public confirmation of the status of this loan proposal.

Adani's Godda power plant is a perfect case-study in crony capitalism. Agreed in a meeting with India's Prime Minister Narendra Modi and Prime Minister Sheikh Hasina in 2015, Gautam Adani was the recipient of a contract to build a US$2bn 1.6GW import coal power plant at Godda, Jharkhand.

Two GoI controlled banks, the Power Finance Corp. (PFC) and Rural Electrification Corp. (REC) are reported to have disbursed loans of Rs100bn (US$1.2bn) for Godda. This is part of a reported US$1.5bn total loan by these banks, representing 100% of Adani's total debt on the proposed US$2.0bn project capex (i.e., 75% debt funded).

Godda is an import destination for the Carmichael HALE (high ash, low energy) coalmine. The coal travels 400km to the Queensland coast, is loaded at the Adani Abbot Point Coal Port to then be shipped to Odisha, then unloaded and railed 600km to be burnt in the Godda coal power plant. Electricity is then to be exported by a yet-to-be-built transmission line to Bangladesh on a very generous 25 year power purchase agreement (PPA), where all the capital costs are underwritten by the poor of that country, and the coal is purchased on a cost +++ basis, reported this month in Bangladesh to be US$400/t. The contract is now in dispute, preventing the plant reaching commercialisation.

Adani was also gifted in 2019 a second special economic zone (SEZ) for the Godda power plant by the GoI, despite specific Commerce Ministry rules to the contrary. This saves Adani US$35m annually (Rs400/t * 7Mtpa) from its exemption from the coal cess applying to all other coal used in India. Additional benefits flow to Adani in the exemption from corporate tax, capital goods import duties, GST et al.

There are serious human rights concerns at play too. As with many of the family's project proposals, Adani was allowed to proceed with compulsory acquisitions of farmers' lands for the Godda plant, leveraging the support of the police to remove affected people, who were displaced from their livelihoods. The newly elected Jharkhand government in December 2019 dropped a review of the Godda power plant, despite this being an election promise.

Further afield, in June 2022 it was reported that Chairman of the state-owned Ceylon Electricity Board in Sri Lanka had claimed that New Delhi pressured the country to award a 500MW wind power project contract to Adani Green Energy. These allegations were subsequently withdrawn.

In 2021, the Adani Group was reported to have signed a US$700m deal with the state-run Sri Lanka Ports Authority (SLPA) to be 51% owner, developer and operator of the strategic Colombo Port's West International Container Terminal, for a 35 year concession. The backdrop was an effort by India to build better strategic relationships with Sri Lanka to counter China's expanding presence.

In 2021 Adani Enterprises was awarded four major new coal blocks for development by the GoI, such that the group now has plans to build over 100Mtpa of new coal mines.

Soon after PM Modi was elected in 2014, the GoI nationalised over 200 coal deposits in a move relating to US$23bn allocation scam against the people of India termed Coalgate, but Adani had a unique Mine Developer and Operator (MDO) model with state governments that allowed them to singularly slip through unscathed.

The Hindenburg report notes that Adani has also escaped repeated GoI Directorate of Revenue Intelligence (DRI) and Comptroller and Auditor General (CAG) investigations into imported coal over-invoicing. We note Adani has not be proven guilty of any of these. For example, it is alleged that Adani's Singapore-based subsidiary Adani Global Pte Ltd illegally earned more than US$363m by supplying substandard coal at inflated prices in collusion with the state electricity utility TANGEDCO between 2012 and 2016.

In 2019 the Adani Group was controversially awarded the right to develop and manage six national airports by the Airports Authority of India (AAI) despite little experience in this sector.

While the construction of the 648MW solar project at Kamuthi, Tamil Nadu in 2015 was reported as a major Indian success, and the start of India's energy transition towards decarbonisation, the awarding of a 25 year PPA at Rs7/kWh was contested as inappropriate. Other proponent projects were being tendered on PPA terms of Rs5-6/kWh at the same time. In other words, a 20-40% premium was awarded to Adani for the life of the project. After a major protracted dispute by the state of Tamil Nadu, a compromise was reached that saw the PPA negotiated down to ~Rs5/kWh.

While the above transactions detail the more recent GoI support of the Adani Group, the rise and rise of the Adani family stems back to the gifting of 15,946 acres of traditional owner lands in Mundra, Gujarat to the majority Adani family owned start-up entity Adani Ports & SEZ Limited (APL) over 2006-2008. Adani paid a reported Rs1-32/square metre, while established firms like Tata Motors, Ford India and TCS paid up to Rs1,100/square metre for much smaller blocks. In other words, Adani received massive land holdings at a price 97-99.9% cheaper than others.

Narendra Modi was Chief Minister in Gujarat at the time.

Adani was also at some point gifted a Special Economic Zone (SEZ) within which he built the largest import coal fired power plant in India (4.6GW), and one of the largest ports in India. APL leases out some of its spare land to other companies.

It would be fair to say much of the wealth of the Adani family stems back to this brilliantly profitable land acquisition in 2006-2008 and subsequent tax-free port and industrial hub development. The displacement of 10,000 artisanal Gujarati fisherfolk for this project is a sorry tale, and entirely inconsistent with Adani's glowing ESG greenwash.

Transparency, accountability, trust, integrity and the rule of law are key to a healthy democracy and the broader public good. The strength and independence of the national media can help foster this, as does effective regulatory scrutiny. For India, the Adani controversy will hopefully mean a significant elevation of regulatory oversight of all companies, and greater press and political evaluation of evidence of crony capitalisation.

Given Adani's current legal posture with respect to the Hindenburg report, we would also note the excessive use of strategic litigation and gag orders is antithetical to national public interest.

See Tim Buckley's previous reflections on the Adani allegations here.

Adani Family Exposures to Listed Indian Subsidiaries / Associates

	Rs 23/1/2023	Adani Share M fpo 31/3/2022 *	Adani Share %	Rs Now	Adani Stake RsBn 23/1/2023	Adani Stake RsBn Now	Decline
Adani Enterprises	3,435	721	65.5%	1,847	2,476	1,331	-46.2%
Adani Green	1,932	1,215	77.7%	724	2,347	879	-62.5%
Adani Transmission	2,784	824	73.9%	1,187	2,294	978	-57.4%
Adani Total Gas	3,901	411	36.9%	1,255	1,604	516	-67.8%
Adani Ports	769	1,384	65.5%	584	1,065	808	-24.1%
Adani Power	273	2,892	75.0%	164	789	474	-39.9%
Adani Wilmar	517	571	44.0%	436	295	249	-15.7%
Ambuja Cements	501	1,254	63.2%	361	628	453	-27.9%
ACC Limited	2,323	12	6.6%	1,881	29	23	-19.0%
Total Family Stake RsBn					11,526	5,712	
USD to Rs					82.5	82.5	
Total Family Stake US$Bn					140	69	-50.4%

Source: Compnay Accounts, Yahoo Finance, CEF estimates

*Note: Promoter shareholdings are as reported at 31 March 2022, * except for Ambjua and ACC, acquired in Sept'2022*

Figure 1: Estimation of the collective value of the Adani family's stakes in 9 listed Indian companies at Rs5,712bn (US$69bn), down 50.4% since the Hindenburg Research report.