The withdrawal of great Indian FPO: The Adani Saga

Amit Singla
Assistant Professor
DMS-PIET

The flagship firm Adani Enterprises withdrew its $2.5 billion share sale to insulate investors from potential losses citing that it would not be "morally correct" to proceed with the follow-on public offering (FPO).

"For me, the interest of my investors is paramount and everything is secondary. Hence to insulate investors from potential losses we have withdrawn FPO," he added, insisting that the decision will not have an impact on the group's existing operations and future plans.

-Gautam Adani, Chairman, Adani Enterprises Ltd

The Backdrop

"The Adani Group is a house of debt." The overall debt levels of the group had soared from Rs.1 lakh crore to Rs.2.2 lakh crores in the past five years. All thanks to its massive expansion spree—into cement, airports, and green energy. Adani needed money to fuel this ambition. And they needed to borrow a lot of money.

But that's just the start. The group plans to pump an eye-watering sum of Rs. 12 lakh crores ($150 billion) into its myriad businesses over the next decade. Most of these ventures are quite capital-intensive. Not just to set up, but even to run on a daily basis. And if it's perpetually financed by debt, well…the interest burden can get out of hand pretty quick. Adani's a pretty shrewd businessman. He knows that fuelling his ambitions through debt alone isn't a sound idea. It could all collapse if the tide turns against him. So he needs money that he doesn't need to 'return. He needs money that doesn't come with the caveat of paying significant amounts of interest periodically. He needs to raise equity capital!!!

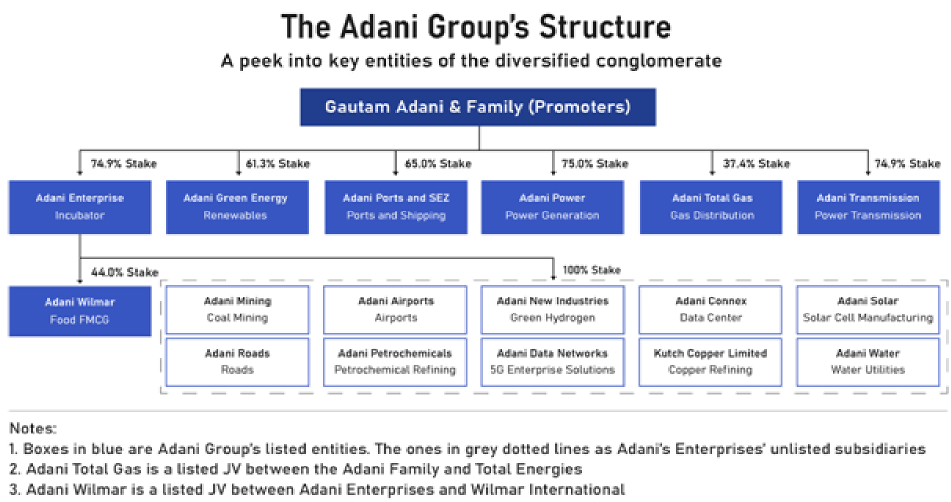
And that's exactly what the group has been up to.

In April, Adani Enterprises Ltd (AEL) raised over Rs. 7,500 crores in equity. They'd convinced one of UAE's largest companies to back AEL. And they're now doubling down on that effort and reaching out to other pension funds and sovereign wealth funds (owned and run by countries) in Canada and the UAE too.

But Adani isn't happy with institutional money alone. He wants money from you and me too!

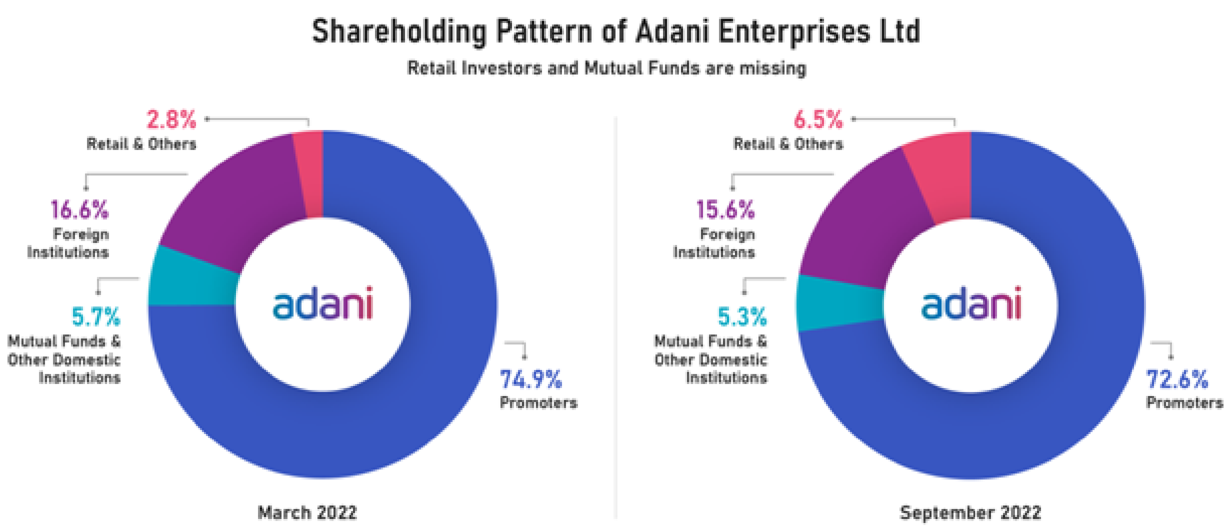
Last week, AEL announced its plans to raise a massive Rs. 20,000 crores in equity capital. And a large part of this will come from us, retail folks.

AEL is an incubator for the Adani Group's ambitions. The other entities like Adani Airports, Adani Mining, Adani Solar, Adani Data Networks, Adani Water, and Adani Roads are all under the umbrella of AEL.



"Indian mom and pop investors invest for their children and grand children." People buying shares in Adani today actually thinking about an intergenerational wealth transfer. The folks at Adani headquarters are trying to appeal to the public. Everyone knows that Adani Group stocks have been on a tear for the past couple of years. Look at Adani Power for instance. It has jumped by 550% since January 2021. Adani Total Gas has soared by 900%. And AEL is up by ~700%. Meanwhile, the benchmark Sensex has risen by a measly 30%.

But in that mad rush to the moon, one complaint has cropped up time and time again—that Adani stock prices were being manipulated because many Adani stocks had a low free float. The public shareholding in most of the companies was negligible. For instance, in March 2022, only 8.50% of AEL was in the hands of the public, mutual funds, and domestic investors. The rest of it was held by the Adani family, their associates, and some random foreign investors.



FPOs aren't quite common in India. There have been just 4 FPOs in the past 10 years. Instead, companies in India seem to prefer something known as a 'Rights Issue'. In fact, there have been 150 Rights Issues in the past decade. Remember, when Reliance Industries raised ₹50,000 crores a couple of years ago? Yeah, that was through a rights issue.

So, why is Adani choosing the FPO route?

Well, it's probably because its structure works to Adani's advantage. The CreditSights report pointed out that Adani and his family haven't been injecting more equity capital into the companies. Their own money isn't going in anymore. All the money is from external sources.

Mounting debt of Adani group

According to reports, Adani group's debt has doubled to $30 bn in the last 4 years alone. The group's high leverage levels were also highlighted in the Hindenburg report, which called it 'extreme leverage'. The 5 Adani group companies have a total debt of Rs. 2.1 lakh crores, of which, 40% is from Indian banks. These companies are Adani Green, Adani Ports, Adani Enterprises, Adani Power, and Adani Transmission. Adani enterprises is also said to have a Net Debt-to-Ebitda ratio of 10 times, which is highest among the group's listed companies.

However, bankers who've lent funds to the group have stated that the group's debts are secured by cash flows and assets.

The withdrawal story

Although the company's share prices were below the issue price, the FPO was subscribed 1.12 times on the final day of the issue. This was largely subscribed by foreign institutional investors (FIIs) and non-institutional investors (NIIs) including family offices of industrialists and ultra-high networth individuals. The FPO's QIB portion was subscribed 1.26 times and the portion allocated to NIIs was subscribed 3.32 times.

It is important to note that FPO's retail portion saw a lull response as it was subscribed only 0.12 times. Meaning only 27.45 lakh shares were subscribed against the allotted 2.29 crore shares. Even the employees' quota was undersubscribed at 55%.

It is surprising that Adani Enterprises FPO is being withdrawn considering it was subscribed fully by corporates and foreign investors on the final day of the issue subscription.

The root cause of the troubled days in Adani came after the US-based Hindenburg Research on January 24th in a report accused the conglomerate of fraud, tax evasion, and stock manipulation among others. Since then, both Adani and Hindenburg have been in a tug of war.

Billionaire Gautam Adani, who is in the middle of a storm following allegations made in the Hindenburg report, had to withdraw Adani Enterprises' Rs 20,000 crore FPO to protect investors from potential losses. The extraordinary development has come amid a massive market rout in Adani Group stocks following the release of the Hindenburg Research report that accused the group of "brazen stock manipulation and accounting fraud".

In a YouTube video, Adani clarified that he has taken this decision as he believes it is morally correct. This was unexpected by most investors as Adani had been confident about the Follow-on Public Offer's success, especially considering the institutional boost it received. The backdrop provided for this announcement is that the markets have remained volatile and Adani group's stock prices had lost up to 10% value by Feb 1.

"For me, the interest of my investors is paramount and everything is secondary. Hence to insulate the investors from potential losses we have withdrawn the FPO," Adani said in a message to shareholders.

Questions:

1. What is your take on the connection between the 'foreign reports' and the mounting volatility in the Indian Stock Market?
2. What could have been the alternative response to tackle the situation from Investors and regulating agencies?