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Why did the company take this decision after its follow-on public offer was fully subscribed? Are the Adani Group's troubles over after the cancellation of the FPO? What did the Hindenburg Research report say about Elara Capital and Monarch Network Capital?

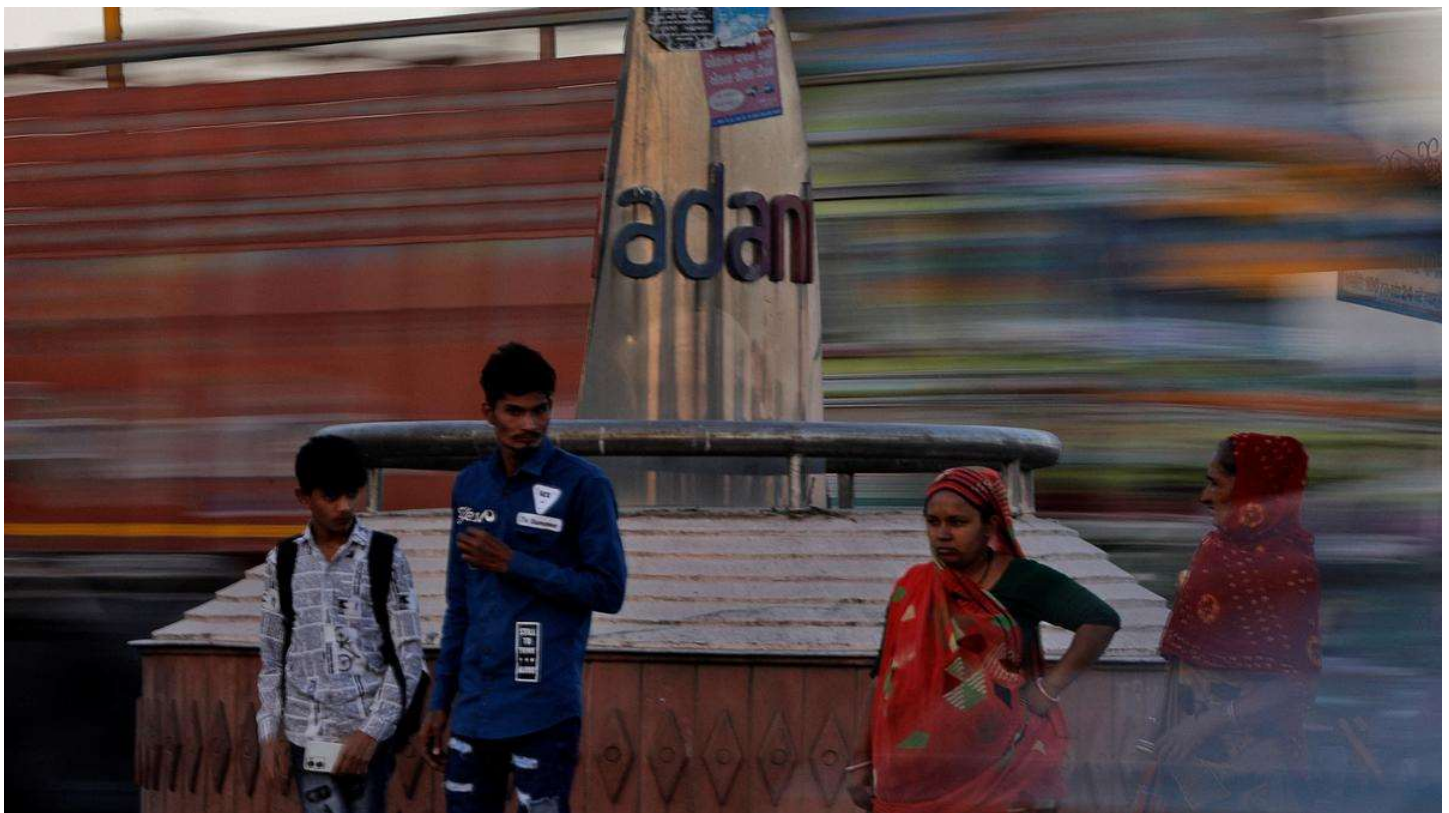
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PRASHANTH PERUMAL J.

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People wait to cross a road in front of the logo of the Adani Group installed at a roundabout on the ring road in Ahmedabad. | Photo Credit: Reuters

The story so far: Adani Enterprises decided on February 1 to call off its ₹20,000 crore follow-on public offer and return the money that it had collected from investors. The Adani Group has



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Editorial | **Warning bells: On the Adani saga**

An FPO is similar to an initial public offering (IPO), except that an IPO refers to the issuance or sale of shares by a company to investors when it taps into the public market for the very first time. Companies can float an FPO to raise equity capital for various reasons such as to pay off debt or to improve their capital structure.

FPOs can also be a way for existing shareholders to sell their shares and exit the company.

Adani Enterprises, the flagship holding company of the Adani Group, planned to raise ₹20,000 crore through an FPO that closed last week. The FPO suddenly came under scrutiny in the midst of the steep fall in the price of its stock following the release of Hindenburg Research's report, accusing the Adani Group of several wrongdoings.

There were doubts about whether the shares offered on sale during the FPO would be fully sold as they were priced well above the market price of the company's stock at the time.

Why did Adani Enterprises call off its FPO and opt to return money to investors?

The FPO floated by Adani Enterprises was fully subscribed, thanks to support from large institutional investors and high networth individuals. The shares were fully subscribed despite the fact that the shares were priced above their public market price. The shares that were allocated to be sold to retail investors and employees of the company, however, were undersubscribed amid the extreme volatility witnessed in the stocks of the Adani Group. Only about 12% and 55% of the shares that were allocated for retail investors and employees, respectively, were sold.



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The well-known U.S. billionaire investor and short seller William Ackman also noted that the FPO may have been “rigged”. In particular, critics alleged that Elara Capital (India) Private Limited and Monarch Network Capital, companies which supposedly underwrote the FPO, are shell companies based on their ownership, operations, investment portfolio, and other characteristics. It should be noted that **the report released by Hindenburg Research** last month had claimed that Elara Capital and Monarch Network Capital were used as shell entities by the Adani Group to manipulate both the stocks as well as the financials of its subsidiaries.

The **Adani Group in its reply** to the accusation had denied that there were any illegal transactions between the group and the alleged shell entities.

What lies ahead?

The fully subscribed FPO may have helped the Adani Group save face and prevented a complete loss of confidence in the group among investors. A failed FPO would have laid bare the group’s inability to raise capital. However, there are far bigger problems for the Adani Group than just the troubled FPO.

As the precipitous fall in the shares of the Adani Group’s companies shows, investor confidence in the group is at a low right now. Regaining the confidence of investors could turn out to be an uphill task. The loss of investor confidence can make any form of fundraising, be it in the form of equity or debt, hard for the Adani Group going forward. This could affect the group’s ability to roll over its debt and even lead to a larger crisis where it is unable to meet its debt obligations.

Lenders such as **Credit Suisse have already stopped accepting bonds** of the Adani companies as collateral for their loans. It should be noted that promoters of the various companies that belong to the Adani Group have pledged their shares to borrow money from banks and other entities.



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The first tranche of payment (worth about \$500 million) of the \$4.5 billion debt that the Adani Group had taken during the acquisition of ACC and Ambuja Cements last year will come due in March.

Given current market conditions, the Adani Group is expected to use cash from within the company and other means to pay or refinance the debt instead of tapping the bond market.

Adani Enterprises decided on February 1 to call off its ₹20,000 crore follow-on public offer and return the money that it had collected from investors.

An FPO is a process wherein a company that is already publicly listed in the stock market issues additional shares to investors.

The fully subscribed FPO may have helped the Adani Group save face and prevented a complete loss of confidence in the group among investors. A failed FPO would have laid bare the group's inability to raise capital. However, there are far bigger problems for the Adani Group than just the troubled FPO.



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