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Discussion-Opinion-Editorial™

Hindenburg Report and the learnings for the MOGI* Company Top Executives and Directors

(Part-1)

The Case and the Fallout

Investors in Adani Group stocks suffered a combined loss of Rs.1.39 trillion in wealth till Monday 30th January, with trading in Adani Total Gas, Adani Green, Adani Power, Adani Wilmar, and NDTV halted after they hit their respective lower circuits, which range from 5-20% (reference: https://www.livemint.com/news/adani-vs-hindenburg-what-do-we-know-so-far-11675168608142.html) after the yet to be validated but stinging accusations by Hindenburg Research. Hindenburg Research LLC is an investment research firm with a focus on activist short-selling founded by Nathan Anderson in 2017, based in New York City. An American short seller, Hindenburg Research, accused the company of using tax havens and flagged debt concerns in a report. Adani Enterprises said on February 1 that it has cancelled its Follow-On Public Offering (FPO) and will return money to its investors amid ongoing controversy. “The Board of Directors of the Company at its meeting held today i.e. February 1, 2023 has decided, in the interest of its subscribers, not to proceed with the further public offer (FPO) of equity shares aggregating up to Rs 20,000 crore of face value Re 1 each on partly paid-up basis, which was fully subscribed,” Adani Enterprises said in an exchange filing.

*MOGI : Mineral Oil Gas Integrated

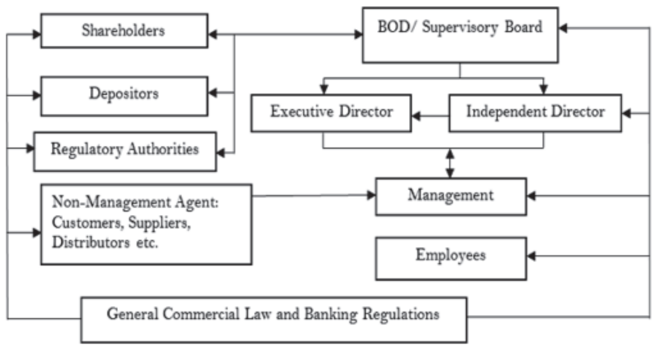

Figure 1: A corporate governance model

Issues in Corporate Governance

This piece is not about the charges or the veracity of the charges but on more important lines, beyond sensationalism on what the top executives of MOGI companies should mind and rather follow in terms of corporate governance. When like others, corporate houses are open to social network vagaries and are subject to disclosure norms, they must realise all their steps are open book to the investors, NGOs, Stock market regulators and the government. When growth is an imperative and is a source of competitive strength a weak corporate culture and governance can be a veritable trap for losing all- clients, customers, value and valuation. This happens when in order to rapidly expand the companies of the developing countries ignore their corporate capability of judgement in order to secure the funds from abroad. Interestingly, the weak institutional culture of the country, not something for which a company can be blamed, cannot help fathom the challenges and requirements of corporate governance and implement them. But,whatever-after such an episode, the company where the public funding is involved is at the receiving end.

Figure 2: Deloitte governance framework

Benefits of Corporate Governance

Good corporate governance provides the following:

1. Good corporate governance creates transparent rules and controls, provides guidance to leadership, and aligns the interests of shareholders, directors, management, and employees.
2. It helps build trust with investors, the community, and public officials.
3. Corporate governance can provide investors and stakeholders with a clear idea of a company's direction and business integrity.
4. It promotes long-term financial viability, opportunity, and returns.
5. It can facilitate the raising of capital.
6. Good corporate governance can translate to rising share prices.
7. It can lessen the potential for financial loss, waste, risks, and corruption.
8. It is a game plan for resilience and long-term success.
9. It create solid defence against rival attacks and better value proposition to the clients.

Specific Charges by Hindenburg

Let us try to understand the charges mentioned in the report:

The report pointed out the debt on the company. "Key listed Adani companies have also taken on substantial debt, including pledging shares of their inflated stock for loans, putting the entire group on precarious financial footing. 5 of 7 key listed companies have reported 'current ratios' below 1, indicating near-term liquidity pressure," the report said (as reported). In simple words, it means that the company will not have substantial liquidity to pay for the debt, the term of which will end soon. This information is available openly, from various websites and social network communications ,or directly from the debtors like a mutual fund and its public disclosure. This is one of the reasons leading to the fall of the shares and also the cancellation of the recent issue of foreign public offering (FPO). So the MOGI company executives should know that all their missteps can be plucked out even by a person situated thousands of miles away- all digitally.

Principles of Financial Management

1. Trade off risk and return
2. Formation of optimal capital structure
3. Deiversification of both investment and borrowing
4. Aware of time value of money
5. Forecast cash flows
6. Take a right insurance plan
7. Concentration wealth maximization
8. Reinvest rather than consume
9. Determine cost of capital
10. Financial decision align with business life cycle

II. Principles of public Debt Management

b. Transparency and Accountability

• Transparency and Accountability include clear, publicly disclosed allocation of roles and responsibilities for:

– Debt management policy
– Development of risk management framework
– Debt management operations
– Primary market issuance
– Secondary market regulation and control
– Depositary facilities
– Clearing, registration and settlement arrangements

• Disclosure of goals and policy instruments enhances confidence from financial markets

• Transparence enhances good governance through greater accountability of public institutions involved in debt management

(to be continued in part-2)