The Adani Story and Indian Neoliberalism*

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A strike on the Adani group by short-seller the U.S.-based Hindenburg Research has led to the unravelling of the Gautam Adani story, which celebrated the spectacular rise, in an extremely short period of time, of the wealth of a man and his business empire. Much of that wealth disappeared following a crash in the stock values that shaved more than $100 billion off the market capitalisation of seven publicly listed Adani group companies. That led to the withdrawal, post-launch, of a $2.5 billion share issue and, possibly, of rounds of borrowing.

Meteoric Rise, Capital-Intensive Projects

Following those events, attention has shifted to what this episode says about the larger Indian growth story. Two features of the Adani story are of significance here. The first is that the gravity-defying climb in market value of the listed companies was accompanied by an expansion of the physical assets of the group that, in the same short span of time, displaced well-entrenched business groups that dominated India's corporate sector. That kind of rise had happened only once before, with the Reliance group under Dhirubhai Ambani. As in that case, in this one too, the incumbent leaders could not stop the meteoric rise of an 'upstart' group.

The second is that the growth of the Adani group occurred through investments largely in capital-intensive infrastructural areas power generation, ports, airports and roads, besides mining and metals. Till well into the era defined by the Indian government's embrace of neoliberalism, these sectors were largely the preserve of the public sector. This was not only because private entry was restricted by policy, but because even when such restrictions were being relaxed, private investment lagged. One reason was that these sectors required large investments, involved long gestation lags, and were, therefore, more risky. The other was that in many of these areas, the pricing policy of the government and of the public enterprises were such that when profits were made, projects were less profitable than elsewhere.

Rising to dominance in these areas was not, therefore, the same as entering into the provision of offshored software services, for example. That was the area which in the not-too-distant past delivered high profits and triggered a rapid rise in market valuation of the companies that made their promoters India's new billionaires. Infrastructure needs large outlays, and the rewards are limited even when positive. Entrants into the infrastructural sectors need to risk large volumes of capital, only a small proportion of which can flow from the own coffers of a fledgling entrepreneur. Gautam Adani not only invested in more than one such project in any single infrastructural area but also made investments in greenfield projects or acquisitions to build large asset shares in multiple areas. His genius seemed to lie in the ability to mobilise the resources required for this near-impossible task.

The Favourable Factors

When climbing that hill, Mr. Adani was undoubtedly favoured by features of India's neoliberal policy regime after the turn of the century, that underpinned the spike in GDP growth to around 8% per annum during 2003-04 to 2011-12. One was India's success, especially after 2003, in using liberalisation to attract large inflows of foreign financial capital into its bond and equity markets. The consequent surge in domestic liquidity swelled deposits in India's banking system and set off a credit boom.

Banks looking to expand their loan base had to resort to aggressive lending practices that took them into new areas, including infrastructure which was earlier considered too risky. This shift was encouraged by contradictory elements of the neoliberal growth strategy. On the one hand, the government focused on building infrastructure needed to support a private sector-led growth strategy.

On the other, it was committed to both incentivising the private sector with tax concessions as well as veering in the direction of fiscal conservatism that abjured debt-financed expenditure. To ensure both, spending had to be reined in, including public investment. That raised the question as to which actors would invest in the infrastructure, since, till then, the private sector had largely shunned that domain. To resolve this conundrum, the neoliberal state chose the option of getting the private sector to do the job, attracting it by promising support to mobilise the required resources as well as to 'de-risk' and improve the profitability of such investments. Subsidies and 'viability gap funding' from state coffers and flexible pricing were examples of such support. A crucial component of that agenda was the provision of large volumes of credit from a public banking system awash with liquidity to private sector firms investing in infrastructural areas.

The spate of reports that followed the Hindenburg hit (some of which contain convincing data) suggest that the Adani group benefited disproportionately from these features of the neoliberal policy regime. It borrowed heavily from public sector banks as well as obtained equity financing from public financial institutions such as the Life Insurance Corporation of India, to establish a presence in a range of infrastructural areas in a short period of time. Benefits did not stop there. Evidence suggests that official permissions, easy environmental clearances, access to land and convenient policies, combined to drive the Adani expansion as well as convey the impression that the group was too important not to succeed. It was inevitable that this special treatment that contributed to the group's race to the top would be attributed to the proximity of group-founder Gautam Adani to Prime Minister Narendra Modi. The ideological case for incentivising the private sector can, after all, provide the excuse for excessively favouring one or more private players, for whatever reason. Contrary to the rhetoric of neoliberal advocates, the embrace of markets does not increase transparency and reduce bias.

Regulatory Restraint

In fact, rumours of state patronage possibly also encouraged foreign bond and equity investors searching for higher yields to buy into Adani, whenever the opportunity arose. But, possibly influenced by the need to retain control over a capital thirsty business, Adani seems to have preferred debt, with free floating shares of its listed companies available for trading being a small proportion of the total. To mobilise that credit, Hindenburg argues, and many others concur, the group used related-party shell companies claiming to be independent to park finance in tax havens abroad, that was then used to acquire the shares of Adani firms. That helped raise share values to unwarranted levels, but, despite red flags from multiple sources, that did not evince any scrutiny by Indian regulators whether of the Adani firms, the foreign investors or the banks investing in and lending to the companies. State support was combined with regulatory forbearance. The resulting soaring share values served in more ways than raising Gautam Adani's wealth status. They helped to mobilise large volumes of credit from domestic and foreign financial firms by pledging shares with inflated values as collateral. Finance did not seem a constraint that could stop the group's expansion. Till Hindenburg came along.

The Adani group sought to dismiss the allegations of the shortseller and tellingly suggested that this was not just an attack on the group but on the Indian success story. But that does not seem to have convinced private creditors and investors. Share prices collapsed leading to margin calls from those holding shares of inflated value as collateral. Thus far, Adani is holding out, even opting for early repayment of loans totalling $1.1 billion and releasing some pledged shares of group companies. But the story being told has not yet reached completion. What it has already made clear, however, is that neoliberalism is not about market competition and transparency, but an instrument to engineer income and wealth redistribution. In this case in favour of one individual and his group.

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