The Adani effect: GMR, OP Jindal, Hinduja groups in spotlight after Sebi's FPI squeeze

The regulator wants detailed disclosures from FPIs with concentrated stakes in Indian corporate groups; The Ken's analysis finds big surprises

Anand Kazhuvanjeri, 20 Aug 2023

Cross-Asset Edition, been busy. Sebi has introduced a "high-frequency portfolio monitoring [FPIs] to ensure compliance with prescribed limits on non-Residents only, Know-Your-Customer (KYC) norms and other conditions."

Analysts at Jefferies estimate that the proposed rules will impact about 4% of the Indian market, or about $10 billion, if foreign portfolio investors (FPIs) in Indian companies with concentrated holdings in Indian companies are forced to reduce their holdings to 5 percent and below.

Cross-asset unit at UBS Securities India, which manages the firm's equity business, has analysed FPIs with highly concentrated holdings in Indian companies and found that the bulk are based in Mauritius, Singapore, Luxembourg and Bermuda countries.

Sebi's monitoring seems to be focused on Indian corporate groups that are based out of the Asian Group managers did not choose to invest in Indian companies directly, but rather set up shell entities in tax-friendly locations.

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VIEW AVAILABILITY

In about a week, the country's capital markets regulator, the Securities and Exchange Board of India (Sebi), has asked foreign portfolio investors (FPIs) to disclose details of their Indian holdings. Sebi has charged portfolio investors (FPIs) with the responsibility to track additional disclosures, and to report breaches of the regulatory limits to the market regulator.

And what both these developments have in common is (and is not) the Adani Group, which was left reeling after a scathing report by US research firm Hindenburg Research in January.

The first development is just about a week away unless the market regulator, the Securities and Exchange Board of India (Sebi), seeks a short extension. By the end of this month, Sebi will have to deliver its recommendations to the Ministry of Finance (Government of India) for conglomerate in the Supreme Court.

The second one is less than 90 days away. Sebi, on 10 August, amended the rules to enhance disclosures for certain "high risk" foreign portfolio investors (FPIs), giving them a three-month window to comply. There's an Adani Group link here too, say market reports, even though Sebi has refused this. The idea is to reduce the opacity around who owns these FPIs and process investors linked with company promoters from comingling in profit-making.

The scattered nature of the Adani Group, which accounts for 10% of their equity portfolio in a single corporate group, and it forces that four-million individuals in with their income group (and nearly 50,000 with 200,000 billion of country under management (AUM) in Indian stocks).

Sebi's new rules, which have been in consultation since last year, are a direct response to the Adani rules, since the rules in question of data disclosed by business information groups.

The Adani Group, which has since significant corporate groups such as OP Jindal, GMR, Hinduja, Tata, Birla, Reliance, Bajaj, Mahindra and Adani, is a family-owned business in India. The story has details about PM Consumerbrands in some of these companies.

Meanwhile, Sebi's report on Adani Group contained a detailed research for corporate India. Sebi's findings and regulatory action could hurt the group's funding pipeline and business prospects.

The clock is ticking on two key developments in the Indian stock market. The outcomes could have far-reaching implications and make or break reputations. The common thread in both of these developments is said to be Adani Group, which was left reeling after a scathing report by US based short-seller Hindenburg Research in January.

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In June, said FPIs held over 10% of their equity investments in Indian companies, according to data from Sebi. Of this, 4% of the shareholder exposure are stocks such as Adani Bank and corporate groups including OP Jindal, GMR, Hinduja, Adtrn Birla, Bajaj, Mayaqqua, Tata, Lawen & Toubro, and Bharat Enterprises.

Essentially, Sebi wants the end-users and been behind close "high risk" FPIs.

"It's been a long time coming... For many years, there has been concentration of ownership in Indian companies by foreign investors (FPIs)," said Pranav Mukhija, managing director at Pranav Business Group, adding that in a limited way, the rules will help improve transparency and confidence in the market.

Investment funds, pension funds, certain based exchange-traded funds (ETFs), corporate entities, and notified pooled investment vehicles meeting certain conditions have been exempted from these additional disclosure norms.

In a press conference on 20 June, Sebi Chairperson Madhabi Puri Buch had dismissed allusions that the new rules were in reaction to the Adani matter, saying that these were in the works for over a year and a half.

The Hindenburg report—that pummelled the Adani Group stocks—had alleged, among other things, that shareholding by certain FPIs in the Adani companies violated Sebi's minimum 25% public shareholding norm for listed entities. In April 2021, The Ken had highlighted the peculiar holding patterns in the group's stocks.

However, our overview is convinced by Buch's assertion. "I disagree with the assessment that the additional FPI disclosures rule now is independent of the Adani matter. It is been on for the Adani matter only, nothing else," said a Chennai-based expert on regulatory matters overseeing markets. Their name is withheld as they didn't want to be seen commenting on this.

Other reports also indicate that Sebi's difficulty in identifying the end-beneficiaries of the FPIs that held stakes in the Adani Group stocks led to this new rule.

Impact analysis

Sebi, in a discussion paper in May 2023, said: "Based on the data as of March 31, 2023, and on certain assumptions, we estimate that FPI AUM of around Rs 2.64 lakh crore (or around 8% of total FPI equity AUM) would be affected by the proposed 5% ownership limit, which may potentially be identified as high risk FPIs that need either of the 10% group concentration or the 25,000 crore fund size thresholds."

Graphic by Ashwath P, 21 Aug '23 Source: prime@ttheken.com

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Crossing a threshold with ease

Prima facie, 10 Indian equity market cap and 6% of total FPI equity AUM being categorised as high risk doesn't seem a big deal. Also, after Sebi's 20 June board meeting, Buch had said, "Enterprises have been given sufficient time to comply. We have noted that only a relatively small number of FPIs who would be required to make this additional disclosure."

At June end, just six FPI groups crossed the Rs 25,000 crore AUM threshold. These are Vanguard, Blackrock, Government of Singapore sovereign wealth funds belonging to the government of Singapore and the government of Norway, a listed ETF—Vanguard, and public-retail investment groups Capital Group and Invesco. So, there should be no additional disclosure burden on these FPIs. Nakhale, the sixth FPI in this list, is already a famous fund handled by well-known investor Rakesh Jhunjhunwala.

Spared from burden, mostly

Most FPI groups with over Rs 25,000 crore AUM in Indian stocks are exempt from additional disclosure rules

Beyond Sebi's limits, particular FPIs, and other entities and exempt from additional disclosure rules

FPI group	Total AUM (as of Jun '23)	No. of companies
Vanguard Group	1,11,000	1,000
Capital Group (US) (Mutual fund)	47,000	1,000
Norges (Norway) (Sovereign fund)	36,000	1,000
Vanguard ETF (Listed ETF)	35,000	1,000
Nakanda (Mauritius) (Investment vehicle)	31,000	1,000
Invesco (US) (Mutual fund)	30,000	1,000

FPI group has top-up companies, only those AMC-based companies in which FPI has stake of more than 10% are included. Data for Nakanda is as of March 31, 2023 (Sebi's latest data)

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Together, these FPIs owned about Rs 4.85 lakh crore (US$58.3 billion) worth of Indian equities on 30 June. Their investments spanned blue-chip companies such as Reliance Industries, Tata Consultancy Services, HDFC company Bajaj Finance, mortgage lender HDFC (now merged into HDFC Bank), information-technology giant Infosys, private lenders ICICI Bank and Kotak Mahindra Bank, conservation major L&T, and ultra-Bharat Ayush. None of these FPIs seems to be an investor in Adani Group's stocks as of June end.

However, things get much more interesting when looking at FPIs with Indian holdings concentrated in a single group.

Group shares

In about 150 corporates—including Adani and some of the country's best known businesses—one or more FPIs have invested over 10% of their India AUM in stocks of a single group. The total AUM of such FPIs in these groups was about Rs 1.87 lakh crore (US$22.5 billion) on 30 June.

Foreign hand

Many of India's best-known corporate groups have FPIs' with highly concentrated holdings in their stocks

Number of FPIs with more than 10% AUM in the group*

Adani	15,000
Aditya Birla	1,700
Apollo Tyres	2,100
Bajaj Group	5,000
Bharti Enterprises	1,300
Cutpaw Petroleum	1,100
Eicher Motors	1,400
GMR	1,300
GVK	1,000
Hero MotoCorp	1,300
Hinduja	15,200
Indiabulls	270
Integrate Aviation	2,400
Kalar Mahindra Bank	2,700
L&T	600
Murugappa	1,100
OP Jindal	1,000
PNB	1,000
Reliance	1,000
Tata	2,700

ALM of such FPIs in the group (in crore of Indian rupees)

Adani	1,00,000
Aditya Birla	5,000
Apollo Tyres	2,000
Bajaj Group	10,000
Bharti Enterprises	5,000
Cutpaw Petroleum	2,000
Eicher Motors	5,000
GMR	5,000
GVK	2,000
Hero MotoCorp	5,000
Hinduja	1,00,000
Indiabulls	1,000
Integrate Aviation	10,000
Kalar Mahindra Bank	10,000
L&T	5,000
Murugappa	5,000
OP Jindal	5,000
PNB	5,000
Reliance	5,000
Tata	10,000

US$ = Rs 82 (Source: RBI Ref. Rate)

Note: Not accumulated for Foreign Portfolio Investors. Only Fund FPIs with state of concerns. Data is for the group companies (as reported by public disclosure norms). NBFC listed companies

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The ACM of these FPIs is likely an underestimation as publicly disclosed data—the shareholdings disclosure norms—is available only between each month. FPI shareholding in companies is be identified.

There would likely be more FPIs with below 5% under whose holdings may be concentrated in single groups. Sebi would possibly be prior to this information. "Ideally, the names of all institutional shareholders in listed companies should be disclosed, or at least, there should be a common value-based shareholder," Mukhija said.

Deep concentration

More than half the FPIs' with concentrated holdings in a single corporate group have 100% of their India AUM in the group

As on June 2023

Number of FPIs*

100% equity	75-99% equity	50-75% equity
119	33	67

Examples

FPI	Corporate group
Green Shanty PEC	Adani
Griffin Growth LLC	Aditya Birla
AON Investments	GMR
Ashoka	Hinduja
Kraeg	Tata

FPI	Corporate group
Elara Capital	Adani
Jaffe Brosens	Aditya Birla
BNP Paribas Arbitrage	Adani
Nomura Singapore	Adani
Nomura Holdings	Adani
Nomura	Adani
Nomura	Adani
Nomura