Adani Group Controversy: Hindenburg Accuses SEBI Chairperson in Latest Allegations

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What’s in today’s article?

- Why in News?
- What is Hindenburg?
- What is Short selling?
- Background
- Hindenburg’s new allegation
- Stand taken by the SEBI on this controversy

Why in News?

A year and a half after its January 2023 report on the Adani Group, US-based short seller Hindenburg Research has levelled allegations against the chairperson of India’s capital markets regulator Securities and Exchange Board of India (Sebi).

Hindenburg Research has accused Sebi chairperson Madhabi Puri Buch and her husband of having stakes in offshore funds involved in the alleged Adani money siphoning scandal.

The short seller (Hindenburg Research) seeks to draw a connection between the alleged involvement of two offshore funds, the Buchs' investments, and their various professional associations, suggesting that Ms. Buch may have shown favoritism toward the Adani Group.

What is Hindenburg?

- Hindenburg Research is a U.S.-based financial research firm known for short selling, where it profits from a decline in a company's stock price.
- Founded by Nathan Anderson, the firm specializes in forensic financial research, often uncovering fraud or mismanagement.
- Hindenburg gained significant attention with reports on companies like Nikola and the Adani Group, leading to substantial market impacts.

What is Short selling?

- **About**
    - Short selling involves profiting from a decline in a stock's price by selling borrowed shares and repurchasing them at a lower price.
    - Short selling can serve many purposes, such as mitigating demand-supply imbalances in scrips and ensuring price efficiency.
    - However, it has also been used as a means of manipulation — or what the U.S Securities and Exchange Commission (SEC) has described as a bear raid.
    - In this context, it raises concerns about intent and credibility.
- **Example**
    - Anticipating a downward movement, an individual sells 10 shares at ₹100 apiece. The total sale value is ₹1,000.
    - The price of the share decreases to ₹85 apiece and they opt to buy the quantity back. This time it will cost them ₹850 — a direct profit of ₹150.
- **Hindenburg and short selling**
    - Hindenburg had shorted electric truck maker Nikola Corp in 2020 placing concerns about their functionality.
    - In October 2022, the Nikola's founder Trevor Milton was convicted by a U.S. jury of fraud for lying to investors about the technology.

Background

- **Hindenburg report on Adani**
    - In a January 25, 2023 report, Hindenburg accused the Adani Group of decades-long stock manipulation and accounting fraud.

    - The report was released just before Adani Enterprises' Rs 20,000-crore follow-on public offer (FPO), leading to a sharp decline in Adani shares and the eventual cancellation of the fully subscribed FPO.
    - Adani denied the allegations, and most of the group's shares have since recovered.
- **Expert committee formed by SC to investigate**
    - In March 2023, the Supreme Court formed a six-member expert committee to investigate potential regulatory failures concerning the Adani Group.
    - Separately, the court asked Sebi to specifically investigate if there was:
    - a violation of the minimum public shareholding norms in public limited companies,
    - a failure to disclose transactions with related parties, or
    - any manipulation of stock prices.
- **Observation made by SC**
    - In May 2023, the expert committee reported that Sebi had found no evidence of money flow violations from offshore entities into Adani companies.
    - By November 2023, the court upheld Sebi's investigation, rejecting the need for a Special Investigation Team (SIT) or CBI involvement.
    - SEBI had completed 21 out of 22 probes by March 2024, with the final investigation nearing completion.

Hindenburg's new allegation

- Hindenburg Research's allegations against SEBI Chairperson Madhabi Puri Buch and her husband revolve around their supposed hidden stakes in offshore funds in Bermuda and Mauritius, which are linked to the Adani Group's alleged stock manipulation.
- Hindenburg suggests a conflict of interest and possible collusion due to the Buchs' investments in these funds.
    - It asserted that this might explain SEBI's reluctance to take meaningful action in the ongoing Adani investigation.
- The allegations also focus on Ms. Buch's professional engagements.
- Hindenburg claims that she retained ownership of her consulting firm, Agora Partners Singapore, during her tenure at SEBI, only transferring it to her husband's name after becoming SEBI Chairperson.
- Furthermore, Hindenburg accuses her husband, Dhaval Buch, of benefiting from his role as a senior advisor at Blackstone, alleging that SEBI's policy changes under Ms. Buch's leadership favored Blackstone's interests in India's real estate investment trusts (REITs).

Stand taken by the SEBI on this controversy

- Sebi defended Madhabi Puri Buch, stating that she has consistently made necessary disclosures regarding her securities holdings and transfers.
- Sebi also noted that Buch has recused herself from cases involving potential conflicts of interest.
- During the Hindenburg probe, Sebi has communicated with over 100 regulators and agencies and examined more than 300 documents.

They advised investors to stay calm and exercise due diligence.

Q.1. What is follow-on public offer (FPO)?

A Follow-On Public Offer (FPO) is a process where a company issues additional shares to the public after its initial public offering (IPO). It allows the company to raise more capital, typically for expansion or debt repayment, and provides existing shareholders an opportunity to buy more shares.

Q.2. What is conflict of interest?

A conflict of interest occurs when an individual's personal interests or relationships interfere with their professional duties or responsibilities. This can lead to biased decision-making or actions that favor personal gain over impartiality, undermining trust and fairness in professional or organizational settings.

Source: All you need to know about the Hindenburg-Adani-Buch saga | The Hindu